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The Small Business Adviser

**Protecting Small  
And Home Offices**

**Smart Marketing  
With Software**

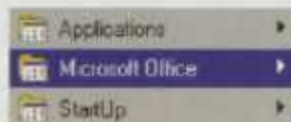
**Avoiding Layoffs As  
A Way To Prosper**

## LABOR'S New Assault



Published by  
U.S. Chamber of Commerce  
JUNE 1997 - \$2.50

*Shrewd leadership and activist tactics are beginning to pay off in the unions' broad-based mobilization campaign.*



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# Microsoft Office 97 **Small Business Edition** / **knows where y** (Also, where you're going, how to get there, what your





# ou're coming from.

Q4 sales are and how to spell "rhythm.")

Our new Microsoft® Office 97 Small Business Edition is based on thousands of hours of interviews with small business owners; we heard all about the wide variety of tasks you have to do in a day—from the mundane to the extraordinary—and this is the software we assembled to help you. It starts with the new releases of Microsoft Excel 97 and Word 97, and adds a few other indispensable applications. Small Business Financial Manager, for example, turns raw numbers into insightful information that can help turn a cash trickle into a cash flow. Publisher 97 will help you create professional-looking brochures, business cards, labels, even Web sites. Microsoft Internet Explorer 3.0 helps you browse the Internet, access all kinds of business resources, drum up new contacts and re-establish old ones. When you want to contact your contacts in person, Automap® Streets Plus will give you a detailed map of how to get there. Finally, Outlook® 97 desktop information manager organizes your e-mail, your schedule, your connections—basically, your life. With Microsoft Office 97 Small Business Edition taking care of all your busy work, you concentrate on other things—like making your small business into a larger one. For a more thorough tour of Microsoft Office 97 Small Business Edition, just visit our Web site at [www.microsoft.com/office/sbe/](http://www.microsoft.com/office/sbe/).

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PHOTO: T. MICHAEL KEZIA

Amid Las Vegas' building boom, construction companies such as Precision Concrete are being targeted by AFL-CIO organizers. The firm's president, Chad Stewart, left, confers with Brad Rising, project superintendent, at a hotel job site. Cover Story, Page 16.



PHOTO: BRIAN JOHNSON

Recycler Marsha Serlin built her seven-acre scrapyard into a \$40 million gold mine. Making It, Page 12.

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Big Labor's aggressive organizing tactics to enlarge its dwindling membership and bolster its political influence have raised the stakes sharply for business.

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# Editor's Note

## The Execution Is What Counts

Our February 1996 cover story outlined the ambitious plans of John J. Sweeney, the AFL-CIO's newly elected president, to reinvigorate the union movement in America. This month's cover story details the execution of those plans. From California to Nevada to Florida, union organizers and political strategists are employing the tactics of their shrewd new leader. And they have a powerful tool: money.

Don't miss this timely and urgent report. It was written by Senior Editor Jim Worsham (at left in the photo), based on his reporting and on contributions from Deputy Editors Al Holzinger (center) and Roger Thompson (seated right) and Senior Associate Editor Steve Bates (seated left). Our chief photographer, Michael Keza (right), provided photo coverage from Las Vegas. The story begins on Page 16.



PHOTO: LAURENCE L. LEVIN



PHOTO: GARRY STARR

In his drive to increase golf-club sales, Douglas Kelly uses mapping software. *Small Business Technology*, Page 39.

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On The Cover: AFL-CIO President John Sweeney and the Rev. Jesse Jackson (flanking demonstrator in red T-shirt) lead an April 13 rally in Watsonville, Calif., to organize strawberry workers.

Cover Design: Hans A. Baum  
Cover Photo: © Linda Sue Scott



PHOTO: ILANCA BIL MOORE

Our June insurance special report, written by Senior Associate Editor Steve Blakely, is must reading for anyone who has a small office or owns a home-based business. The report, beginning on Page 30, is aimed at helping such entrepreneurs protect themselves and their property.

Home-business owner Jay Lutz (at left) of Walnut Creek, Calif., is among the company owners who shared their experiences with us in the hope of benefiting others.

Readers whose companies have overcome adversity and emerged stronger are encouraged to note the article beginning on Page 37. It describes the Blue Chip Enterprise Initiative, an outstanding program that honors such businesses annually.

I encourage any reader whose company has five to 400 employees and meets the initiative's other criteria to apply. For details, see the article, "Program Delivers Winning Hands," and the insert immediately following it. The insert includes a program application. This is a superb opportunity for worthy companies to get the recognition they deserve.

*Mary Y. McElveen*

Mary Y. McElveen  
Editor

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# Nation's Business

# Letters

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## With The Secret Out, A Touch Of Sadness

 I read with great interest "A Guru Ahead Of Her Time," the article that accompanied your May cover story, "Leadership For The New Age."

I was introduced to the theories of Mary Parker Follett while obtaining my degree in industrial engineering from GMI Engineering and Management Institute in Flint, Mich., from 1956 to 1960. As your story states, her management ideas may not have been made available to all schools of higher learning, but it is important to know that there were and are exceptions.

The lesson is that where you go to school is of vital importance.


Now that Follett will no longer be one of my secret and unique management weapons, I feel somewhat sad. However, I hope that the rest of the world will put her thinking to as much use as I have been able to.

*Robert E. Reiss  
Chairman and CEO  
InterVentional Technologies  
Inc.  
San Diego*



**Mary Parker Follett:**  
a management  
weapon.

## Joining The Attack On Corporate Subsidies

 Regarding "Pro-Business Programs Attacked From Two Sides" [Dateline: Washington, April]: The federal government has overstepped its bounds in almost every area of society.


There are few, if any, federal programs that improve results. Energy companies, for instance, could produce better results—cleaner and more-efficient energy, among other things—without federal guidelines and funding.

There is no reason for U.S. taxpayers to underwrite bad bank loans to developing countries, or even to developing neighborhoods.

From corporate subsidies to the air-traffic-control system to public schools, privatization—which has worked relatively well in all other developed countries—will also work in the U.S., the world's last bastion of pork-barrel socialism.

*Robert W. Hughes  
Houston*

## Consider All Options On Education Funding


 Your Where I Stand poll in the April issue failed to identify the major issues facing today's schools.

Some states have opted for school vouchers (California almost joined those states recently when 47 percent of voters supported a voucher program), so how could this option not have been listed in your survey?

If businesses today have to consider every possible avenue to reduce costs (and sometimes just to stay afloat), shouldn't the government, too?

*William "Bill" Ross, Owner  
BRC Design Builders  
Stockton, Calif.*

## Down To Basics


 Regarding your April poll on education, the "right" to a free education must be established to mean only that the opportunity is guaranteed. Refusing to take advantage of that opportunity is a loss for the individual student, while lowering the expectations for students and faculty is a loss for all Americans.

I argue that your education poll is composed of loaded questions. America's education system must return to the basics and demand mastering the required studies.

*Bob Curry, President  
Center Ace Hardware  
Corpus Christi, Texas*

[Editor's Note: Results of the April Where I Stand poll are on Page 66.]

## Bullish On A Program For Tomorrow's Leaders

 You are to be commended for your article on the Hugh O'Brian Youth Foundation ["Riding Into The Sunrise," March]. The current generations of adults have saddled the coming generations with the greatest challenges in our history. If those challenges are to be met, tomorrow's adults must be able to hit the ground running.

They cannot acquire the skills to do this solely in the schools. HOBY has afforded thousands of tomorrow's leaders an in-



valuable shortcut by allowing them to interact with those who run today's world.

By learning from our successes and failures, they will not have to repeat history. *Jerry M. Reinsdorf, Chairman Chicago Bulls*

## The 'Year 2000 Problem' And The Russian Military


 The disastrous effects of the multi-billion-dollar "year 2000 problem" on the computer systems of American businesses have been well-chronicled, including by *Nation's Business* ["Preventing Time From Marching Backward," January].



PHOTO: GILES GARNICA-REUTERS

**Russian troops stand guard as an SS-25 missile is readied for return from Belarus to Russia in November.**

What has been less publicized is the havoc this problem will create on the former Soviet military machine.

Just after midnight on Dec. 31, 1999, all of the encryption codes, software, and BIOS (basic input-output system) chips in Russian military hardware will crash. Command-and-control systems, navigation systems, intercontinental ballistic missiles, tanks, ships, airplanes—every piece of hardware that has a BIOS chip inside will malfunction.

The error is found in microcode embedded in the BIOS chips. The only way to solve the problem is to replace those chips; otherwise everything from videocassette recorders to the space shuttle will malfunction.


American technology companies and computer consultants will have a financial bonanza solving the problem in the U.S. and allied nations.

So what will happen to the Russian nuclear arsenal? Will the Russians be able to replace their existing systems? Will the world be cast into an early-1960s movie scenario in which the computers go haywire and blow up the rockets in their silos? Or will the missiles lie dormant, unable to respond to a launch code because

encryption verification and missile control will be impossible?

Welcome back to the Cold War. *James G. Pepper Natick, Mass.*


## Are The GATT Signators Living Up To The Pact?

 Your February cover story, "Challenges We Face," was excellent. The "Trade Obstacles" section was especially interesting, not only for what it contained but also for what it did not.

In another such article, *Nation's Business* might consider analyzing whether signators of the latest accord of the General Agreement on Tariffs and Trade are really carrying out what they agreed to, and by some specifics: steel and textiles, for instance.

*Seeley G. Lodwick Manager Green Bay Farms Limited Partnership Weaver, Iowa*

## Another Brokers' Group For Business Transfers


 "Putting A Price Tag On A Family Firm," your April Direct Line item about how to buy or sell a business, unfortunately omitted our organization, the National Association of Independent Business Brokers.


For over 18 years I have been building the NAIBB (also known as the Business Transfer Network), and our group now has more than 200 clients in the business-broker profession.


Owners looking to buy or sell a business should be aware that the NAIBB offers highly professional business-broker services nationwide. We can be reached at (916) 241-1600.

*Frank Covick, President National Association of Independent Business Brokers Redding, Calif.*

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### Labor's New Assault 4854

Big Labor is back—with aggressive efforts to increase union membership—and the stakes for business are high.

### Leadership For The New Age 4853

To meet the challenge of rapid change, bright new leaders must be flexible.

### Where There's A Will... 4852

The only certainties are death and taxes, but there are steps you can take to soften the blow from the latter.

### Making The Internet Work For You 4851

The global computer network has sparked a gold rush for the 1990s—don't be left in the dust.

### Challenges We Face 4850

Here's why Congress, the president, and the rest of America must work together to ensure that our nation will remain strong.

### Clear Sailing? 4849

The long period of slow expansion shows little sign of ending, signaling both opportunity and reasons for caution.

### The Future Is Now 4848

The marriage of computing and telecommunications technology is reshaping the way small businesses operate.

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# ENTREPRENEUR'S NOTEBOOK

By Jack Cakebread

## A Vintage Approach To Technology

**M**ost winemakers stopped crushing grapes with their feet decades ago. Likewise, most offices got rid of carbon paper as soon as they were sure their new copying machines would work. In both cases, technological improvements increased efficiency without changing the intrinsic character of what was produced.

In a world where entrepreneurs can go crazy from too many choices, two things that technology has not changed are the first two principles of business: Make a good product, and get the word out.

At Cakebread Cellars—our family-owned Napa Valley winery, where we turn out 65,000 cases per year—we've been on the cutting edge of technology for most of our 25 years.

We got started with the first 120 series Hewlett-Packard computer, and since then it has become second nature for us to use technology for everything from turning lights on and off in the winery to monitoring and adjusting just about every aspect of the winemaking process—from the growing conditions of the grapes through the fermentation process.

The reasoning behind our high-tech choices has always been the same: Use the technology to help produce the highest-quality wines and to communicate the fruits of our labor.

Like wine, all technology is not created equal. If you are considering a technology investment—whether you're just beginning to automate or you're ready to upgrade your computer or production equipment—keep these points in mind:

**Automate where it helps most.** If your capital for technological improvements is limited, look to automate your

financial operation first, then production, and ultimately sales, marketing, and customer service.

Let the market vote with its dollars before you spend yours.

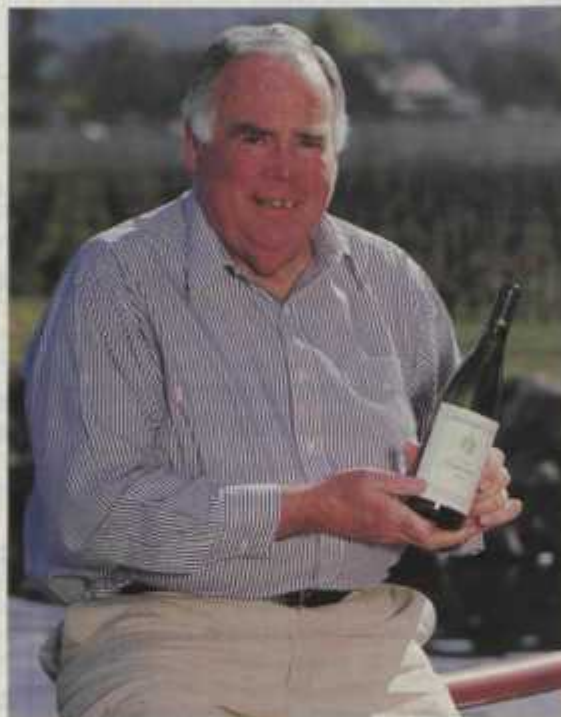


PHOTO: CLARENCE BUE SCOTT

*Old-fashioned business principles blend with the latest technology at Jack Cakebread's winery in California's Napa Valley.*

**Know what it is you want technology to do for you.** Technology isn't a panacea, but rather a tool for managing your business. For technology to be effective, you must match function with need. For example, scanners are great, but the one we purchased didn't provide the benefits we expected; our technology dollars would have been better spent elsewhere.

**Don't be the first kid to play with a new toy.** Given the fast-paced nature of innovation and the intense marketing that accompanies new developments, it is easy to be drawn into spending big dollars on unproven hardware and software. Before making a major investment in a new technology or computer program, wait awhile to allow the market to discover its true benefits and drawbacks.

### Maintain the human touch.

The increased efficiency that results from putting technology to good use is wonderful, but it still takes people to close a deal. No customer wants a synthesized voice responding to his or her call. Clients want to speak to an individual, or at least to that person's voice mail.

Having to cut through high-tech barriers can make people feel distanced from you and your company. So look for technology that increases the effectiveness of your personal sales pitch. Cellular phones, fax machines, and beepers all can do this.

Hospitality events are an integral part of how we do business. Through our software programs, we track the occasions when guests are entertained and the foods and wines they are served. Knowing that we had someone out a year ago for lunch, and what he or she ate and drank, enables us to ensure that we serve something different on the next visit. This lets the guests know they aren't just another line item.

No entrepreneur should lose sight of the importance of that point. Clients come to small businesses expecting personalized attention; if technology makes you lose touch with your customers or staff, it isn't helping you.

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## WHAT I LEARNED

*Staying focused on personalized service is paramount for small businesses adopting high-tech solutions.*

Jack Cakebread is chairman and CEO of Cakebread Cellars in Rutherford, Calif. He prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.



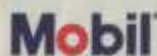
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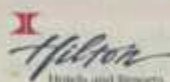
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# Dateline: Washington

Business news in brief from the nation's capital.

## TAXES

### Electronic-Filing Deadline Nears

Unless Congress decides otherwise, effective July 1, about 1.2 million small and midsize firms will be required by the Internal Revenue Service to file their federal payroll and income taxes electronically; the possible penalty for noncompliance is 10 percent of the taxes owed.

The mandate will apply to companies that paid \$50,000 or more in employment taxes in 1995. Companies that reached the \$50,000 threshold for the first time in 1996 must begin electronic payments by Jan. 1, 1998, and those paying just \$20,000 or more in employment taxes this year must commence electronic payments by Jan. 1, 1999.

Currently, only the approximately 1,500 companies whose annual employment-tax deposits exceed \$47 million are required to participate in the electronic-filing program, known as the Electronic Federal Tax Payment System (EFTPS). Others can make tax deposits at their bank, which transmits the money to the IRS at no charge to the business customer.

Legislation that provides financial assistance to victims of the recent Midwest floods contains a provision by Sen. Kit Bond, R-Mo., that would prohibit the IRS from issuing EFTPS noncompliance penalties for six months. The bill was being debated by Congress at press time.

Other measures would keep participation in the EFTPS optional for most firms. Although these bills have considerable support in Congress, they are still at the committee-hearing stage.

When a company enrolls in the EFTPS, it is assigned a personal identification number, or PIN. A designated person at the firm, using a personal computer or a touch-tone phone, then authorizes tax payments from a company bank account to the IRS. The authorization is authenticated through the PIN and the company's employer identification number.

Additional information on the EFTPS, including enrollment instructions, can be found at a section of the IRS's World Wide Web site, [www.irs.ustreas.gov/efps/efps.html#Desc](http://www.irs.ustreas.gov/efps/efps.html#Desc), or by calling 1-800-555-4477 or 1-800-945-8400.

## GOVERNMENT ASSISTANCE

### The SBA Steps To The Plate Amid Midwest Flooding

As flood waters ravaged the Midwest this spring, the U.S. Small Business Administration undertook one of its major responsibilities: providing assistance to victims of natural disasters.

"Our role is that of a disaster banker," says the agency's newly installed administrator, Aida Alvarez. "We give disaster victims a down payment on the future."

The SBA makes disaster loans directly to homeowners and renters as well as to businesses of all sizes to help them repair damage or rebuild—and return to normal.

In the four months through April, the SBA had made nearly 10,000 disaster loans in 10 states, totaling \$127.3 million. Only a relative

few of those loans stemmed from the recent flooding in the Dakotas and Minnesota; more flood-related disaster loans are expected to be made later in the year.

Alvarez is the third SBA administrator appointed by President Clinton. The first was Erskine Bowles, now White House chief of staff. The second, Philip Lader, resigned this year.

Alvarez comes to the SBA at a politically peaceful time for the agency. Although it is facing reauthorization this

year, there appears to be little if any talk of abolishing it, as there was two years ago when the Republicans took control of Congress following their sweep in the 1994 elections. "Luckily, I'm taking over an agency that's in fairly good shape," she says.



PHOTO: GUARY HERSCHE/REUTERS  
The SBA's Aida Alvarez: Helping disaster victims rebuild.

Before joining the SBA, Alvarez was director of the Office of Federal Housing Enterprise Oversight. The agency oversees the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corp. (Freddie Mac).

Alvarez was an investment banker with First Boston Corp. and Bear Stearns and also had been a newspaper and television reporter in New York City.

She worked for Vice President Al Gore's 1988 presidential bid as well as in President

Clinton's 1992 campaign.

"The SBA is a financial agency," she says, "and I want it to be a leading-edge financial agency." She is seeking funding to upgrade computer hardware and software and to improve the agency's oversight of its loan programs.

Alvarez hopes to use the SBA's Cabinet-level status to work with other top officials to "broker outcomes that will help the small-business community."

—James Worsham

## THE ENVIRONMENT

### Group Prepares To Fight Fossil-Fuels Treaty

A broad, ad hoc coalition of business, labor, agriculture, and public-policy organizations is preparing to fight a legally binding international treaty that would require reductions in fossil-fuel use and, the groups say, would cut U.S. jobs and economic growth.

The groups, including the U.S. Chamber of Commerce, will participate in a June 9

satellite town meeting on the Clinton administration's plans to agree to a United Nations measure for reducing greenhouse gases from fossil fuels to 1990 levels by 2010. The world's largest industrialized countries will meet in Kyoto, Japan, in December to negotiate a pact to curb the use of fossil fuels, including gasoline and oil, that allegedly cause global climate change.

For more information on the town meeting, call (202) 463-5670.

—David Warner





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# Managing Your Small Business

*Marketing via the Internet and daytime soaps; holding an audience's interest; acclimating foreign workers.*

By Roberta Maynard

## RETAILING

### Taking Your Products To The Main Streets

Carving a niche in the apparel industry amid the consolidation taking place among retailers is dicey at best. Douglas Miller's products are sold by prestige retailers Neiman Marcus and Nordstrom, but the

changing landscape has convinced him that it's not wise for manufacturers to rely on big chain retailers for success.

Accordingly, Miller, president of MillerShor, Inc., in New York City, is building sales of his line of women's silk clothing by reaching out to customers on his own.

He is using the Internet—not to sell

directly to consumers but to introduce his products into communities where the brand isn't well-known. After eight months of showcasing his goods on his World Wide Web site, [www.millershor.com](http://www.millershor.com), he has a database of 750 customers who have sent him electronic mail requesting the names of stores where they can find MillerShor apparel. He contacts these customers' favorite stores and invites their buyers to visit his New York operation. By creating a demand for his goods among consumers, he encourages retailers to buy from him.

Miller is also using his growing customer database to test new styles and colors through electronic surveys of selected groups.

In addition, a deal he completed this year with TV producers has resulted in MillerShor dresses being worn by actresses on two soap operas, "As The World Turns" and "Another World." Miller's goal is to work out additional deals with the shows' producers to do promotional tie-ins and to enable customers to order the clothing they see on the programs after each show.

"I'm going to have my own following," says Miller, whose three-year-old company's revenues have grown from \$8 million the first year to \$18 million last year. "You can't sit back and wait for the retailer; you've got to take it to the customer."



PHOTO: GARNOLD ADLER

With the retail landscape shifting, Douglas Miller is introducing his line of women's silk clothing to potential customers through the Internet and two TV soap operas.

## PRESENTATIONS

### Turn Up The Volume, Tune In To Audiences

When giving a speech or a presentation, a business owner often is conveying an important message. But that message may be lost if the delivery isn't dynamic and engaging.

The best way to hold an audience's interest is to project enthusiasm and vocal energy, says Kevin Daley, CEO of Communispond, a New York City-based firm that teaches presentation skills to executives. Two common faults of nonprofessional speakers are speaking in monotone—often the result of reading a speech word for word—and speaking too softly. Varying the volume can help with both problems.

When preparing a talk, consider the

range of volume, which Daley expresses as a 10-point scale. At 1 and 2 on the scale, he says, you're inaudible and come across as timid and confused. Volume levels 3 through 6 might be usual in conversation, but in a speech they don't convey sufficient conviction. Save them for dramatic contrast.

Volume levels 7 and 8, Daley says, are the magic ones for projecting energy and for using key words and phrases. "It's the level to which your voice naturally goes when you are excited about your subject. You sound firm and lively, and your audience hears you as authoritative and interesting."

To gauge the best volume levels for a room where you'll be speaking, Daley says, find out its size. Better yet, go to the room before your speech and have a colleague

stand at the back and signal whether the volume is right.

When you're addressing the group, focus on someone in the back of the room to "speak to." That will cause you to breathe through your diaphragm and expel more air, which results in better projection.

"Turning up the volume and varying it according to your message will grab and hold the attention of your listeners and will also help you discharge nervous energy," says Daley.

For more on presentation skills, read *Successful Presentations For Dummies* (IDG Books Worldwide, Inc., \$16.99), written in a lighthearted yet practical vein by Malcolm Kushner, a professional speaker and humor consultant.



## DIVERSITY

## Helping Foreign Workers Feel More At Home

The term "speaking a different language" can take on a new meaning when foreigners come to the United States to work for American firms. Virtual Solutions, Inc., in Irving, Texas, discovered that successfully integrating such workers often means handling a host of cultural and societal differences.

The four-year-old technology company began recruiting in Taiwan, India, Britain, and France when it was unable to find enough U.S. workers with expertise in designing and writing customized database software. About 40 of the company's 100 employees are foreigners.

One of the early challenges that CEO Mike Baldwin and his managers faced was acclimating workers to the U.S. culture and lifestyle. The managers were surprised to learn that some workers had never had credit cards or bank accounts and needed help getting them. Some workers also needed help getting apartments and driver's licenses and understanding American slang.

To ease these adjustments, Baldwin places new workers with mentors—preferably employees who have been in the United States for a few years.

In an effort to make workers feel at

home, the company holds international days—with catered or potluck lunches featuring ethnic foods—so all workers can learn something of the cultures represented in the workplace. The company also spon-

made. For example, it soon became apparent that the company needed to liberalize its vacation policy so foreigners could return home on holiday. The company also engaged a law firm to handle



PHOTO: SCOTT WOFFER

At his database-software firm in Texas, Mike Baldwin, center, helps his skilled foreign workers adjust to life in the U.S.; with him are, from left, Archana Simon (India), Mimi Hung (Hong Kong), Min Xu (China), Noet Dao (Vietnam), and Raja Mukherjee (India).

sors employee soccer teams because of the sport's popularity among foreign workers.

Some additional changes had to be

visa and green-card paperwork and trained an in-house person to serve as liaison with the law firm.

Accommodating these skilled workers is essential to the success of Baldwin's business. He has found that flexibility is the key to attracting and retaining them. "They are in very high demand. They know that, and our competitors know that," says Baldwin, who adds that his experience with foreign employees has been excellent. "They have a strong work ethic and are eager to learn."

## INVENTORY MANAGEMENT

## Having The Right Part At Your Service

"I don't have the part I need" is probably the most common complaint of field-service and plant-maintenance personnel, according to Joseph D. Patton Jr. and Herbert C. Feldmann, authors of *Service Parts Handbook* (Solomon Press, \$99). Yet, while needed parts often aren't available, other items sit in stockrooms and warehouses gathering dust. Patton and Feldmann, who have years of logistics experience, offer these key techniques for creating a more efficient system of managing the parts needed for service:

**Identify the most-needed parts.** Create an authorized stock list containing at least 85 percent of all the parts needed, and stock accordingly. Give the list to field technicians.

**Track parts requests.** Keep a record of each part requested, and note whether it is on the stock list. Logging all demands and periodically evaluating them will help you determine whether the right parts are being stocked.

**Consolidate parts.** For efficient management, store parts in a central location,

with established procedures for transporting them. When field people have confidence that they can get parts quickly, they won't feel a need to hoard them. Another tip: Whenever feasible, have a lower-paid worker deliver parts to highly trained technicians. Even the use of taxis or couriers may be less costly than diverting technicians from their work.

**Eliminate excess, obsolete, and defective parts.** Getting rid of these parts—by returning them to vendors or donating them and writing them off—means they no longer require space or employees' attention and no longer are factored into data collection or taxes. Getting rid of unneeded parts is one of the hardest jobs of a parts manager, whose concern is to be prepared for all contingencies. But that mind-set is not cost-effective, say the authors.

"Unlike manufacturing, service is a probability business. . . . Even with a 98 percent delivery rate, it still means that 2 percent of the time that part cannot be delivered. We must learn to live with probabilities and manage by them."

Patton and Feldmann's comprehensive, 500-page book is available from the publisher by calling (718) 830-9112.

## NB TIP

## Selling To Committees

When you arrive at a sales call and find a group of people waiting, you'll give yourself an edge if you go beyond just finding out their titles, advises Stephan Schiffman, president of D.E.I. Management Group, Inc., a sales training firm based in New York City.

Go around the room and talk with the individuals about their goals for the project and the agenda of the committee. The group may consist of decision makers or information gatherers, for example, and it's important to adjust your presentation accordingly.

Participants usually will be pleased that someone is taking the time to evaluate the group's needs, Schiffman says.



# Making It

*Growing businesses share their experiences in creating and marketing new products and services.*

## A Scrappy Entrepreneur

By Sharon Nelton

**W**hen Marsha Serlin started United Scrap Metal, Inc., 19 years ago, she did so with \$200, a rented truck charged to her Sears card, and a sense—passed down from her father—that she could do anything she wanted to.

"I never knew I had a limit," says Serlin.

As it turned out, her father was right. Today, United Scrap, in Cicero, Ill., has 120 employees, more than 600 pieces of equipment, and annual revenues exceeding \$40 million. And Serlin has become, if not a household name, a widely recognized figure in the world of small business. Last year she was named National Small Business Subcontractor of the Year by the U.S. Small Business Administration.

She is the first woman to win the subcontractor award, the 30th of which was given this year.

After years of keeping a low profile and getting customers by word of mouth, Serlin had hoped the publicity would bring the company more business. Instead, she got a marriage proposal and, she says, "a hundred calls from investment counselors and insurance salesmen."

Whoever coined the word "gutsy" must have had someone like Serlin in mind. Twenty years ago she had two small children, a marriage that would soon fall apart, and a small houseplant instal-

lation business that she operated out of her home in Northbrook, Ill. "It was a thriving, nice little business, but not enough to support me," says Serlin.

She recalls that one of her male clients always seemed to be at home, which Serlin found unusual. She asked him what he did

for a living, thinking that whatever it was, it "couldn't be a bad business—because this guy was never at work."

She learned that he was in the scrap business, and she decided that if she ever really needed money, that's the business she would go into. When that time came, she called the client and said, "Teach me everything you know in 24 hours."

He agreed to help, but she was so naive, she says, that she showed up at his scrapyard wearing "a strapless sundress with a little jacket and a pair of sandals."

These days she wears bluejeans, steel-toed boots, and a hard hat.

Serlin began knocking on doors of firms that might have scrap to sell, and she resold what she collected to larger scrap dealers. She soon found herself working 16 hours a day six days a week and spending the seventh day doing paperwork.

It took her three years to work up the courage to ask her mentor what she was doing wrong. Why, she wondered, wasn't she at home as he had been when she met him? She learned that he had been so burned out from his business that he had taken six months off.

"I just imagined that I'd be home with my children after school and [be doing] all the other things mothers do raising their children," Serlin says.

She sees United Scrap as a recycling business. It purchases scrap—including metal, paper, and plastic—from other companies, such as Common-



PHOTO: BRIANNE JOHNSON

**Scrap-metal entrepreneur** Marsha Serlin is the first woman to be named the nation's Small Business Subcontractor of the Year.





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## MAKING IT

wealth Edison, an electric utility, and Andrew Corp., an Orland Park, Ill., electronics company. The materials are sorted, cleaned, chopped, baled, and resold to customers such as U.S. Steel and Alcoa to be remade into other products.

In Serlin's view, United Scrap acts as a partner with its clients, advising them, for example, on procedures that lead to better scrap management and helping them improve their bottom lines. And while the industry was fairly unsophisticated when Serlin started her company, she has kept up

with technology, installing a computer system to track vehicles and materials.

"My customer is the No. 1 person," she says. "I do everything as though it were for me. I put myself into the shoes of the customer, and I say, 'If I were him, what would I want from me?'"

Serlin says she learned the business by asking questions: "If I didn't get the right answer, I'd go somewhere else. I didn't stop until I felt that I was doing the right thing."

As Serlin walks through her seven-acre scrapyard, it seems she knows every em-

ployee by name. Spread across the yard are pile after pile of scrap, ranging from discarded household items to highway signs and an old propeller. "We have metal as far as the eye can see," she says.

Serlin is working fewer hours now because her son, Brad, has taken over operations and sales. But only slightly fewer hours. That's in keeping with her work ethic. In fact, Serlin scoffs at the notion that luck played a part in her success. "People think that you're lucky," she says. "It's not luck. It's hard work."

## Going With The Flow

By Michael Barrier

**I**t sometimes seems as though the lives of small high-tech companies should be measured in dog years—they live and die at such an accelerated pace. To have reached the advanced age of 16—as a 70-employee Stillwater, Okla., company called TMSSequoia has—is to be something of a Methuselah.

TMSSequoia has always been devoted to helping its customers store in computer form what would otherwise require far more voluminous paper documentation. Says Maxwell Steinhardt, who succeeded the company's now-retired founder, J. Richard Phillips, as CEO last year: "Our specialty is big documents"—documents that can be, as in the case of the charts for the Navy's incredibly complex nuclear submarines, as large as 6 feet high and 20 feet long. All of those Navy documents are on CD-ROMs that can be carried on the submarines themselves.

TMSSequoia was a pioneer in such technology. Phillips was chairman of the computer-science department at Oklahoma State University when he started the company, then known as TMS (for Time Management Software; it changed its name in 1996 after a merger with a smaller California company with complementary software products). He had the idea of putting digital information onto an optical disk, at a time when CD-ROMs did not exist.

Although CD-ROMs are still part of TMSSequoia's arsenal, the company's focus has shifted to other means of meeting the same basic need for compressed data storage. TMS now concentrates on what is called "imaging," the sort of thing represented most dramatically by those huge Navy charts—that is, scanning documents and transforming them into digital photocopies that can be "read" at least as easily as the paper equivalents.

The sophistication involved in such document storage is formidable. Take the forms used by a health-maintenance organization: To copy all the elements of each form would be duplicative and would

says, and that's an area where TMSSequoia has expertise.

Steinhardt, a Silicon Valley veteran, came to TMS in 1990 as what he calls "the sales guy," and he has a marketer's sensibility—that is, a concern not so much with building the most innovative products as with understanding and meeting customers' needs. When Steinhardt joined TMS, Phillips says, "he basically took over the whole imaging side of the



PHOTO: STEVE JENNIS

**Using technology to cut documentation down to size is the forte of TMSSequoia, whose Maxwell Steinhardt, right, became CEO in 1996 after founder J. Richard Phillips retired.**

consume a lot of computer storage space. TMSSequoia software permits stripping out the elements that are common to each form.

"The company being as old as it is," Steinhardt says, "it has had a series of different relationships with its customers." Consistent with that pattern, "the Internet's going to be very core to us," he says. Corporations "want to have a quick, departmental way of attaching a scanned image" to an electronic-mail message, he

company, and it just blossomed."

TMSSequoia is now a profitable public company (its 1996 revenues were more than \$5.6 million), but its early years were often rocky. Its technology was too often ahead of the market, Steinhardt says, and he wants to avoid repeating such a mistake.

"There's so much going on that you can spend your whole life just trying to stay abreast of it," he says. "You have to reduce it to a business if you want to make money at it."



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## COVER STORY

# Labor's New Assault

By James Worsham

**N**orth Las Vegas is a few miles away—but a world apart—from the neon glitz of downtown Las Vegas and its crowded, casino-lined boulevard known as The Strip.

The streets of North Las Vegas are dotted not with fantasy hotels but with convenience stores and gas stations. The air is filled with the low roars of heavy trucks and earthmovers. Warehouses, shopping centers, and houses are springing up at a dizzying pace to accommodate some of the 4,000 people a month who move to southern Nevada to work in the booming gambling and tourist industries.

And it's in North Las Vegas that a confrontation—a high-stakes gamble more in character with The Strip—took place earlier this year, at the modest offices of Precision Concrete, a family-owned, non-union construction company.

The 275-employee firm, with revenues of \$29 million a year, performs concrete work on projects of various sizes. Its biggest job currently is the twin 15-story Marriott hotels under construction across the street from Las Vegas' bustling downtown convention center.

When the company's president, Chad Stewart, arrived at work on Feb. 12, he encountered about 250 union members and organizers, including John J. Sweeney, president of the 12.9-million-member AFL-CIO.

The protesters demanded the immediate rehiring with back pay of a recently fired worker, saying he had been dismissed because of his union-organizing activities. His supervisors said he had been a good worker for over a year but had to be discharged after he became a disciplinary problem.

Stewart dispersed the uninvited union crowd by proposing a one-on-one meeting with the former employee. Eager to resolve the unsettling affair and because of some confusion during the termination process, Stewart says, he ultimately offered to



PHOTO: T. MICHAEL HEDZ

**The firing of a worker triggered a confrontation with the AFL-CIO for Chad Stewart, president of a nonunion construction company near the Las Vegas Strip.**

rehire the discharged worker. The former employee declined.

The case is pending before the National Labor Relations Board (NLRB).

"I'm sure we haven't seen the last of them, though quite frankly I don't know what to expect," says Stewart of the union activists. "But I do know that the fear of all this stuff is 10 times worse than anything that could actually happen."

Precision Concrete was among the first small companies in the area to be targeted by the Building Trades Organizing Project, an effort whose results in Las Vegas could have national implications. The project is a

\$6 million joint undertaking by the 15 building- and construction-trades unions and the AFL-CIO to organize the many companies taking part in Las Vegas' building boom.

"The Las Vegas campaign will provide a strategic model for other sectors and unions to follow," Sweeney told the building-trades unions' conference in Washington, D.C., in April. "Our national and local unions have to roll out the heavy artillery all over the country, just as you are doing in Las Vegas."

Precision Concrete's Stewart says he thinks his company was targeted because of its work on the Marriott, the kind of high-rise work in downtown Las Vegas

*Also contributing to this story were Deputy Editor Albert G. Holzinger, reporting from Las Vegas; Deputy Editor Roger Thompson; and Senior Associate Editor Steve Bates.*



*Big Labor is back—with aggressive organizing efforts designed to increase union membership and political power—and the stakes for business are high.*



that traditionally has been the unions' turf. Whatever the reason for the targeting of specific firms, one thing is clear: Big Labor is back. Its aim is to increase unions' membership and their political power throughout the country.

Said Sweeney at the April conference: "There are two keys to our success or failure in rebuilding this movement we all love so well and in restoring the voice of American workers in our society—one is organizing, and the other is politics. We can't succeed at rebuilding our membership base without winning in politics, and we can't win in politics without substantially increasing our numbers."

But rebuilding is just a means to an end for unions, says Bruce Josten, senior vice president for membership policy of the U.S.

Chamber of Commerce. "What really is at stake," he says, "is the shape and framework of the public-policy debates of the future. Sweeney is attempting to define who and what the business community is and what it stands for in the eyes of the public."

To achieve its goals, the AFL-CIO has boosted spending on organizing from \$2.5 million in 1995 to \$30 million this year—about one-third of its total budget. It has strongly urged its 77 member unions to do the same, and many are complying. Moreover, the federation is planning a multimedia, multiyear image-building campaign beginning later this year.

The organizing effort will be costly, but funds appear to be available. If all the unions in the country spent one-third of their budgets on organizing nonunion

workplaces and workers, \$2 billion to \$2.6 billion a year would be spent on the effort, according to an estimate by Marick Masters, a professor of business at the University of Pittsburgh and the author of a new book, *Unions at the Crossroads*, (Quorum Books, \$65). Masters calculates that unions' operating revenues total \$6 billion to \$8 billion a year.

Added to that over the next five years will be about \$300 million that the AFL-CIO and participating unions will receive from fees for letting their names be used on members' Union Privilege MasterCard charge cards.

**T**he importance that unions attach to organizing can be viewed in the light of their dwindling ranks. Although the U.S. Labor Department reported that 2.35 million jobs were added to the nation's payrolls last year, unions' share of the work force dropped to 14.5 percent from 14.9 percent in 1995. That's less than half the 35 percent that unions had in the mid-1950s. And although unions represented 37.7 percent of public-sector workers in 1996, they had only 10.2 percent of private-sector employees.

Moreover, organized labor must attract more than 300,000 new members each year just to replace those lost through member retirements, resignations, and company relocations and to maintain its share of the expanding job market.

While spending heavily to rebuild its ranks, labor launched a hardball political campaign in last year's congressional elections to advance a union agenda and derail the business agenda in the Republican-controlled Congress.

This past March and April, labor was back on the airwaves, this time targeting 19 members—Democrats (some of them labor supporters) as well as Republicans. The spring ads pushed for the repeal of two long-standing tax breaks for business in favor of new federal funds for school construction.

The fact that labor is airing TV spots more than a year before the 1998 congress-



## COVER STORY

sional elections indicates that the AFL-CIO and its unions are deadly serious about politics and will be active in next year's campaigns. One goal is to return Democratic control to the House—and possibly the Senate.

Nonetheless, even without control of Congress, labor is getting some strong support from the White House, including a controversial move to encourage departments and agencies to use all-union labor forces in federal construction projects—a strategy that business groups say will drive up the cost of taxpayer-funded government construction projects.

"The labor movement is reawakening," says Kate Bronfenbrenner, director of labor education research at Cornell University in Ithaca, N.Y. "For the first time since World War II, there's an AFL-CIO leader who's pushing organizing." Sweeney and his deputies, she adds, bring a "whole different zeal" to the labor movement compared with their predecessors, led by Lane Kirkland, who headed the AFL-CIO for 16 years.

Jim Rudieil, campaign director for the Las Vegas unionizing drive, typifies these new-age activists. A veteran organizer for the International Brotherhood of Electrical Workers (IBEW), Rudieil says he believes rank-and-file unionists themselves are the best recruiters. "In the past, union members didn't want to talk to nonunion workers. I tell them that's wrong," he says. "Organizing is most effective when it starts at the grass-roots level."

The current revival of organized labor began when Sweeney, who served 15 years as president of the fast-growing Service Employees International Union (SEIU), wrested power in late 1995 from the AFL-CIO's old guard.

Striking the theme "America needs a raise," Sweeney embarked on a drive to re-energize the AFL-CIO by adopting a more in-your-face approach to organizing and striking reminiscent of the civil-rights and anti-war movements. Echoing those eras, Sweeney's chief organizer, Richard Bensinger, says: "It ought to be an act of democracy, not an act of courage, to organize a union."

At the same time, Sweeney has overhauled the federation's bureaucracy. He heavily emphasizes organizing and increasing labor's numbers with shoe leather and media savvy, and he advocates holding lawmakers strictly accountable for their votes for or against labor's positions.

Says the Chamber's Josten: "The new leadership has energized its rank and file. Organized labor has put its money where its mouth is."

**A**s Sweeney and Co. continue to modernize the AFL-CIO and build a broad base of new support for unions and their political agenda, individual union fights are being waged every day.

From coast to coast, organized labor is attempting a major union revival through a combination of door-to-door organizing and old-fashioned rallies, as well as multimillion-dollar TV blitzes, in an effort to bring labor's message to unorganized workers. The evidence of success is beginning to build.

In Las Vegas, for example, the long-term goal of the AFL-CIO and its construction-trades unions, says Rudieil, is nothing less than "trying to organize the entire work

Sweeney told workers who attended a Las Vegas union rally last winter that what they're doing "could very well determine the future of the labor movement in our country."

The techniques being employed in Las Vegas and elsewhere include a combination of traditional on-the-job organizing efforts and off-hours sessions with selected employees identified as potential organizers.

Also being implemented is a technique unions call "mass applications" and contractors call "salting." It involves sending numerous—even hundreds—of union members to a contractor's office to apply for employment. In such instances, some applicants invariably will be turned away. The

applicants' unions respond by filing a charge of discrimination with the NLRB.

Fighting such a charge "typically costs \$3,000 to \$15,000, depending on how frivolous the charge is," says Steven D. Hill, president of a Las Vegas concrete-supply firm, Silver State Materials Corp. Hill also is president of the local chapter of Associated Builders and Contractors, a Rosslyn, Va.-based national trade association for nonunion construction firms.

The unions' goal in orchestrating salting incidents, Hill says, is to force small businesses "either into caving in and unionizing or making it so financially unbearable that they give up" and go out of business—with union contractors taking their places.

Similar tactics have been employed else-

where, including Florida. In Fernandina Beach, Ronald Peacock, president of Peacock Electric, Inc., has been in jeopardy of going out of business since members of Local 177 of the IBEW took him to the NLRB for refusing to hire union organizers for work his firm was doing at a local pulp and paper plant.

Peacock hired nonunion workers instead and was fined \$2,500 in back wages by the NLRB. Now he has spent \$4,000 on legal costs and faces \$6,000 more in legal fees to appeal the NLRB fines. He says union organizers "want you to churn money. They tell you that straight out. They say, 'We are

## Union Membership Continues To Decline

### Percentage Of All Employees

23.8%

23.0

24.1

23.0

\*

\*

20.1

18.8

18.0

17.5

17.0

16.8

16.4

16.1

16.1

15.8

15.8

15.5

14.9

14.5

### Total Members, In Millions

19.3

19.5

20.9

20.0

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17.7

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16.9

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16.6

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16.4

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\* No data

SOURCE: U.S. BUREAU OF LABOR STATISTICS

force." A shorter-term goal, he adds, is pressing nonunion employers to boost the pay and benefits of their workers—even if the employers do so only to forestall organizing efforts.

The Precision Concrete incident promises to be only an early shot in a long conflict between the Building Trades Organizing Project and Las Vegas' nonunion contractors. The conflict is being monitored closely at the Washington headquarters of the AFL-CIO and its affiliated building-trades unions, and organized labor plans to apply the lessons learned in Las Vegas to organizing construction job sites nationwide.



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## COVER STORY

going to take you to [the NLRB], and the government is going to [force a costly legal battle] for us."

Labor's organizing efforts in Las Vegas and elsewhere are not limited to construction contractors. Other thriving service industries such as health care are also emerging as priority targets.

For the past three years, the SEIU, Sweeney's alma mater, has been trying to organize nurses employed by Columbia Sunrise Hospital and Medical Center in Las Vegas.

Efforts were limited primarily to distributing pro-union materials in the cafeteria at mealtimes and at the front door during shift changes, says Ann Lynch, the hospital's vice president for marketing and community service.

The unions recently upped the organizing ante at the hospital in the form of picketing by about 250 people. A videotape of the incident disclosed that only a few of the pickets were nurses and most of the rest were construction or culinary workers, Lynch says. Such support by one union for another is a major tactic in Sweeney's move to strengthen organized labor's clout.

Several hundred miles north and west of Las Vegas, unions are seeking to organize 20,000 workers in the \$550 million strawberry industry in northern California, where 80 percent of the nation's strawberries are grown. Sweeney, along with other labor leaders and national figures such as the Rev. Jesse Jackson, led a march through Watsonville, Calif., on April 13.

The AFL-CIO and the Teamsters union helped the United Farm Workers with the rally, and the union has taken its case to the public, seeking signatures on petitions supporting the right to organize, just as the union did during grape and lettuce boycotts in years past. At press time, no strawberry boycott was planned.

Across the country in South Carolina, where the unions traditionally have had the least success organizing, the activity is more subdued. "What we see is what we don't

see," says Deborah Woolley, a vice president of the South Carolina Chamber of Commerce. "You never see the organizers."

Woolley says union organizers sent into the state are going to workers' homes to discuss forming a union. This is in sharp contrast to the traditional tactic of handing out leaflets in front of work sites.



PHOTO: BLANK SLIP SCOTT

Union organizers hope an April rally of strawberry workers in California will boost United Farm Workers membership.

For example, the Union of Needletrades, Industrial, and Textile Employees (UNITE) was recognized without an election at Customized Transportation Inc.'s facility in Spartanburg. A spokesman for CTI said the firm had voluntarily recognized unions in the past.

G. Daniel Ellzey, an attorney in the Columbia, S.C., law firm of Ellzey & Brooks, which specializes in labor law and has business clients in the South and other regions, says he doesn't think union organizing has had much impact in South Carolina, but he adds that it could eventually. "We are in the initial stages of

whatever they have planned," he says.

Ellzey notes that the unions—especially the United Auto Workers (UAW)—are more active in the Midwest than in the South. Among the UAW's 82 organizing victories in 1996 were ones at Ohio and Michigan plants of Johnson Controls, a major supplier of automobile seats, and another at an Indiana plant of A.O. Smith, which makes chassis and parts for Chrysler, Ford, and General Motors.

In South Carolina, the UAW has had some organizing success. In Winnsboro, the local UAW at the Mack truck factory helped organize workers at two parts suppliers: Schlegel, a plant that supplies rubber seals to Mack, and Carolina Tank, which makes tanks for air-brake systems.

Overall union efforts in the state may be paying off as well. South Carolina workers in unions rose from 3.3 percent in 1995 to 3.7 percent in 1996, according to the U.S. Bureau of Labor Statistics.

Meanwhile, health care, one of the nation's fastest-growing industries, is feeling union pressure in places besides Las Vegas. In Hershey, Pa., about 950 registered nurses at the Hershey Medical Center voted by a 10-1 margin in April to leave the Pennsylvania Nurses Association and join the more militant SEIU.

In some states, even doctors are joining unions. In Tucson, Ariz., about 150 physicians at the privately owned Thomas-Davis Medical Center voted by a 3-1 margin earlier this year to join a union affiliated with the American Federation of State, County, and Municipal Employees, which also represents state-employed physicians in Florida.

In another business sector, the Hotel Employees & Restaurant Employees International Union, which goes by the acronym HERE, waged an uphill but successful fight late last year to represent workers at a Hilton hotel in Arlington, Va. A 70-65 vote ultimately gave the union its first win at a hotel in the Washington, D.C., area in about two decades.

Moreover, the Hilton became the first unionized hotel in Washington's Virginia suburbs, which is significant because Virginia is a staunch right-to-work state—one of 21 states where it is illegal to require an employee of a unionized company to join or pay dues to the union to hold a job.

In late April, employees were still without a contract, and negotiations had not begun. Hilton executives declined to comment, but the company has filed appeals with the NLRB. The appeals could take months to resolve.

Nonetheless, labor is clearly bolstered by the victory and says it is targeting more Washington-area businesses for representation. Ron Richardson, who once headed HERE's Washington-area local and now is



executive vice president of its national operation, says the vote "probably gives heart to some people who wanted to organize but were afraid to do so."

But while union activism is on the increase, results of organizing nationwide are mixed. According to PTI Labor Research Inc. of Houston, the percentages of certification elections won by business and by labor in 1995 and 1996 were about the same. A big increase occurred, however, in the number of unions awaiting their first contract after certification by the NLRB, says Mildred Blowen, executive vice president of PTI.

Ray Hilgert, a professor of management and industrial relations at Washington University in St. Louis, believes that the AFL-CIO under Sweeney has been "impressive on a number of fronts." But he doubts that the unions, even with all their new zeal, can grow much. He cites increasing global competitiveness and the changing nature of work, which has replaced many assembly-line workers with highly trained professionals who are less sympathetic to unions.

**T**he AFL-CIO is not deterred, however. It is adjusting to the changed business climate. Gone are the days when organizers might meet a few prospects after work and welcome them as union members.

Workers are more skeptical now and have to be convinced of the value of a union, and in some cases companies go to extraordinary measures to avoid having a union organize their workers.

The University of Pittsburgh's Masters says unions are now searching for alternatives to the traditional route of government-supervised elections. "Everything is on the table. They're looking for all opportunities," says Masters.

In late April, the AFL-CIO and Oakland, Calif.-based Kaiser Permanente, the country's biggest not-for-profit health-care provider, took a novel approach to ending a long struggle over unionization. They announced a "historic agreement" in which the federation will consider Kaiser the "provider of choice" for its 12.9 million members, and Kaiser will remain neutral in union organizing campaigns. About 55,000 of Kaiser's 90,000 employees nationwide are unionized.

In the late 1980s, a small operation called the Organizing Institute was created for research and study away from AFL-CIO headquarters. Setting up such an arm of the AFL-CIO marked a shift from the past; the federation traditionally had left organizing up to its individual member unions.

One of Sweeney's first acts as president was to make organizing a full-fledged department of the AFL-CIO and to increase the budget for it. At the local level, this in-

creased emphasis on organizing means not just more house-to-house organizing and salting but also a concerted effort to generate support throughout communities for union organizing in general, followed by support for organizing efforts at specific locations.

"They try to build an organization among the public and use that [organization] to try

In addition, the AFL-CIO is planning Senior Summer, which will involve retired union members in organizing, and a new program is being undertaken to get working women more involved in unions.

At the same time, the federation is rejuvenating its central labor councils. Each council consists of representatives of all the unions in a major metropolitan area.

Chief organizer Bensinger told *Nation's Business* that the AFL-CIO's efforts are aimed not just at assisting individual unions but also at creating a pro-union climate in communities. If that is accomplished, it will be easier for workers to organize because they will be able to draw on support from local civic and social leaders and other unions. "We're developing a right-to-organize program," he says.

This strategy could attract some public support. "Public-opinion polls have shown that the public is more sympathetic to organized labor than it was in the 1980s," says Marvin Levine, a professor of industrial relations at the University of Maryland in College Park.

Hilgert of Washington University says that although employers are generally in "the catbird's seat," there's "a huge element of ill will against management generally." He adds: "Some of the companies better start recognizing that the people who work for them ought to be participating to

some degree in the rewards of the organization."

**E**fforts by the AFL-CIO to create a more pro-labor, pro-union climate go beyond Bensinger's organizing department. The federation, for example, is going for the jugular of the corporations in so-called corporate or comprehensive campaigns.

In corporate campaigns, unions attack companies on a variety of fronts. They seek to pressure suppliers, customers, creditors, clients, stockholders, top executives, and board members. They sometimes even pressure a company that shares some board members with the target firm or pressure the firm's bank.

For example, the AFL-CIO recently established a site called Executive Pay Watch on the Internet's World Wide Web to monitor the salaries of chief executive officers of publicly held U.S. companies.

At the Web site, you can compare a CEO's salary with your own or that of someone paid the minimum wage (\$11,440

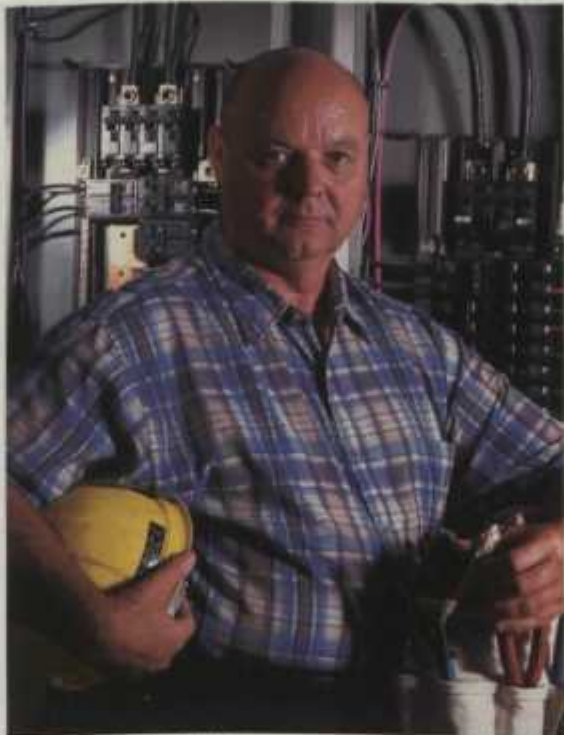


PHOTO: JIMMY BOYD/STAFF

**His refusal to hire union organizers, says Ronald Peacock, could put his small electrical firm out of business.**

to organize people at their jobs in factories," says John Delaney, a professor of organizations and management at the University of Iowa in Iowa City.

Sweeney says that unions will be asking candidates for public office to sign pledges supporting workers' rights and will seek to get city councils and other governmental boards to pass resolutions in support of workers' rights to organize.

But no one outside or inside the AFL-CIO says that Sweeney and Co. can turn organized labor around quickly. The unions "let things go so far, it's going to be difficult to turn it around in the short term," says Delaney.

Understanding that, the federation is also looking ahead—to the organizers of the future. For example, last summer the AFL-CIO staged Union Summer, in which 1,500 college students were recruited and sent to specific areas of the country considered ripe for organizing, along the lines of the Freedom Summers of the civil-rights movement in the 1960s. The effort is to be repeated this summer.



## COVER STORY

a year), the average U.S. worker (\$24,700), or the president of the United States (\$200,000). You can figure out how many years it would take you to earn as much as the annual salary of the CEO you select.

The federation also established an investments department to monitor union assets. Unions are stockholders in many corporations because of their pension-fund investments, so they can offer shareholder resolutions and run their own slates for company boards of directors.

Meanwhile, Sweeney and other top federation officials are participating in meetings around the country this year to rally support in different regions. At each regional meeting, attendees hear from federation staff members about the new ways to organize and to push for unions in the workplace.

**A**lthough organizing is important to labor, the AFL-CIO and its unions have been most visible to the general public through the TV advertisements that ran during the 1996 election campaign—and, in some states, are running again this spring.

While it helped re-elect President Clinton last year, labor's \$35 million in political spending fell short of its goal of returning control of the House to the Democrats following the GOP's 1994 sweep, which gave the Republicans control of both the House and Senate for the first time in 40 years.

Republicans still rule the House, but union activity helped Democrats cut the GOP majority from 236-197 to 227-206, with one vacancy and one Independent in each case. The smaller GOP House majority gives labor a better chance of preventing anti-labor legislation from being passed and makes it harder to override a Clinton veto of anti-labor legislation.

In the Senate, labor actually suffered a setback as a result of the election, when the Republicans increased their majority to 55 from 53. The GOP is still five votes short of the 60 needed to stop a filibuster in the

Senate, so Democrats have enough votes to block legislation.

Nevertheless, the AFL-CIO has remained politically aggressive, beginning a new phase of a determined campaign. In late March, 18 months before the next congressional elections, labor began TV spots in the districts of 19 House members,



PHOTO: T. MICHAEL REZA

**Fighting a charge of discrimination when union job applicants aren't hired can be costly, says Steven D. Hill, president of a Las Vegas concrete-supply firm.**

mostly Republicans but also several moderate and conservative Democrats, including some strong labor supporters. Most of the 19 lawmakers won by slim margins in 1996, and labor leaders say they just want to persuade members to support union causes.

In the TV spots, images of a run-down school are shown with shots of an abandoned factory, along with a section of the tax code that the AFL-CIO says permits companies to use federal money to transfer jobs overseas. "Instead of spending our money

to fix America's schools," says a mother driving her son to school, "Washington gives it away in special [tax] breaks, including one that actually rewards corporations for moving jobs overseas."

The tax provisions in question are long-standing parts of the tax code aimed at helping U.S. companies doing business overseas to avoid double taxation. Together, the tax provisions account for more than \$20 billion annually in lost revenue. School construction is financed primarily at the local level, not by the federal government.

Norman Ornstein, an expert on Congress and a senior fellow at the American Enterprise Institute, a Washington public-policy research organization, says that the individual lawmakers targeted and the issues discussed in the TV spots aren't as important as the overall message.

"What labor is doing is sending a signal that despite the fact that their overarching goal in 1996—returning Democrats to congressional control—was not achieved, they are not cowed," he says. "They are going to be aggressive in promoting their interests, and even Democrats had better not be complacent."

But with the Republicans in control of Congress and the legislative agenda, labor is on the defensive against what it sees as other anti-labor bills—part of the business agenda—that are making their way

### Percentage Of Workers In Unions, By Industry, in 1996



SOURCE: U.S. BUREAU OF LABOR STATISTICS

through the House and Senate.

One debate involves compensatory time and expansion of the Family and Medical Leave Act. Generally, "comp-time" bills would permit private-sector employers to offer employees time off instead of overtime pay, both at the time-and-a-half rate, when they work more than 40 hours in a week. Public-sector employers have had this option since 1985.

Meanwhile, Democrats and the White House are trying to expand the family-



leave act, which already allows unpaid time off for the birth or adoption of a child or to care for a sick family member. The proposed expansion would allow up to 24 hours of unpaid leave per year for parents to attend conferences at their children's school or to help as a teacher's aide.

On March 19, the House voted 222-210 in favor of a narrow comp-time bill that would deal only with overtime accrued by hourly workers in a 40-hour workweek. The Senate was expected to consider a broader comp-time bill in late May.

Other issues over which business and labor are at odds include:

**The TEAM Act.** This measure, the Teamwork for Employees and Managers Act, would let employers set up management-worker committees to discuss issues such as productivity, safety and health, and other workplace matters. Clinton vetoed a TEAM Act bill last year and has said he would do so again. The AFL-CIO says the legislation would result in "sham company unions" and allow management to choose workers' representatives. The measure is expected to be voted on in the House and Senate this year.

**The Davis-Bacon Act.** This law requires payment of prevailing local wages, usually the union rate, to certain workers employed by federal contractors. In the past, Republicans have sought to repeal the law, which labor strongly supports.

**Salting.** Business is supporting legislative measures that would make it easier for companies to forgo hiring applicants who plan to organize workers and/or disrupt firms' operations.

Sweeney has made it clear that the AFL-CIO's aggressive political role is here to stay. The organization's goal, he says, is to have 100 union activists in each of the 435 congressional districts, a sort of "standing grass-roots committee."

**W**ith the Republicans in charge of Congress and its agenda, organized labor has looked to the White House for relief in the form of presidential executive orders and regulatory changes.

In his first term, Clinton issued an executive order barring federal agencies from working with businesses that have hired replacement workers for union members who are on strike. That order was appealed

through the federal courts, with the U.S. Chamber leading a coalition against the measure, and the order was eventually struck down.

In February, Vice President Al Gore told the AFL-CIO executive council that Clinton would sign an executive order mandating that federal agencies consider "project labor agreements" (PLAs) when a government project is being built.

Under PLAs, negotiations with all unions involved would be worked out before the project is begun, thus assuring work is not inter-

rupted. It would also mean that all contractors involved in the project, including those with nonunion work forces, would have to sign on to the PLA, which would obligate them to pay the agreed-on union wages and deal with unions.

The Employment Policy Foundation, a Washington business-research group, estimates that such a PLA order could add \$4.8 billion annually to the cost of government construction or reduce the amount of construction by 30 percent.

In late April, however, Clinton—in an apparent move to get Senate Republicans to vote to confirm Alexis Herman as secretary of labor—agreed to downgrade his executive order to a "memorandum of understanding."

Business groups, including the U.S. Chamber, had fought the proposed order and declared victory, but the White House insisted that the memorandum would have the same effect of encouraging use of

PLAs in government construction contracts even though it would expire when Clinton leaves office.

Meanwhile, the White House is considering two other pro-labor actions, both of them regulatory changes.

One change would require government agencies to do business only with firms that have a "satisfactory" record on labor relations with the NLRB and other government agencies. Another would prohibit firms with federal contracts from seeking reimbursement from the government for the costs of defending themselves against charges of unfair labor practices.

**T**he outcome of Big Labor's new organizing push remains to be seen, but businesses large and small probably should be alert. A more unionized workplace could push up wage and benefit costs, and it could strengthen labor's hand in Washington in pressing for more union-friendly legislation, such as a revision of basic labor laws.

Although there may have been a time when companies could simply pass higher labor costs along to customers, U.S. businesses now face stiff competition abroad as well as at home, making it harder to have the customers make up the difference. As a result, higher wage and benefit costs could cut into profits, dividends, and stock values.

The Chamber's Josten says business shouldn't get bogged down trying to answer all the claims and charges leveled by Sweeney and the AFL-CIO but instead should seek to sway public opinion with a response to the labor federation's message that is positive and meaningful to typical Americans.

"My big fear is that there's not enough respect in the business community for this guy and what he's doing," Josten says.

Meanwhile, Sweeney continues to rouse his troops and urge them on. "We changed the way we do politics, and it's working," Sweeney told the building-trades conference in April. "We're lobbying together and fighting together; rather than as separate unions with separate agendas." He added: "What this country needs is bigger, stronger unions and more union members."



**A union won the right to represent workers at a Hilton hotel in Arlington, Va.; here, union organizer Trina Scorda, left, walks with three workers.**

rupted. It would also mean that all contractors involved in the project, including those with nonunion work forces, would have to sign on to the PLA, which would obligate them to pay the agreed-on union wages and deal with unions.

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To order a reprint of this story, see Page 68. For a fax copy, see Page 5.



## MANAGING

# Avoiding Pink Slips

*It's not for every company, but an informal policy of never laying off employees can have benefits for a small business.*

By Harvey Meyer



PHOTO: BILL LUSTER

When business is lagging at his construction-equipment dealership, Roy Hunt shuns layoffs—and it pays off, he says.

For five months last year, business was frightfully slow at Hunt Tractor, a \$14 million-a-year construction-equipment dealership in Louisville, Ky. It was so slow, in fact, that it might have caused temporary layoffs—a tactic used by many companies to improve cash flow when sales drop sharply. Instead, Hunt Tractor's chairman, Roy Hunt, kept many of his 61 employees busy with training exercises.

Custom Business Forms, a Minneapolis printing company with 97 employees, has some workers repair machines and tidy up during business doldrums, or it may have others make scratch pads. Layoffs? The firm's president, Frank Miske Jr., says he doesn't even "fantasize" about them.

"We don't lay off people because we don't want to lose them," he says. "Besides that, it's not morally right to lay them off because

loyal employees built this company." The \$8.5 million-a-year company has been profitable since its founding in 1969, Miske says.

Custom Business Forms and Hunt Tractor belong to an apparently rare breed—small companies that have never laid off employees and are determined that they never will. The employers' virtual guarantee of no layoffs stands in sharp contrast to the position of many U.S. firms that quickly reduce staff whenever quarterly profits tumble.

But don't get the idea that companies such as Custom Business Forms are softies. "Absolutely not," says Miske. Avoiding layoffs at all costs can offer a bundle of bottom-line benefits: retention of highly trained, skilled, and productive workers; elimination of the need to spend time and money on recruiting; payroll savings in those instances when employees agree to small and generally temporary wage reductions in return for employment security; the

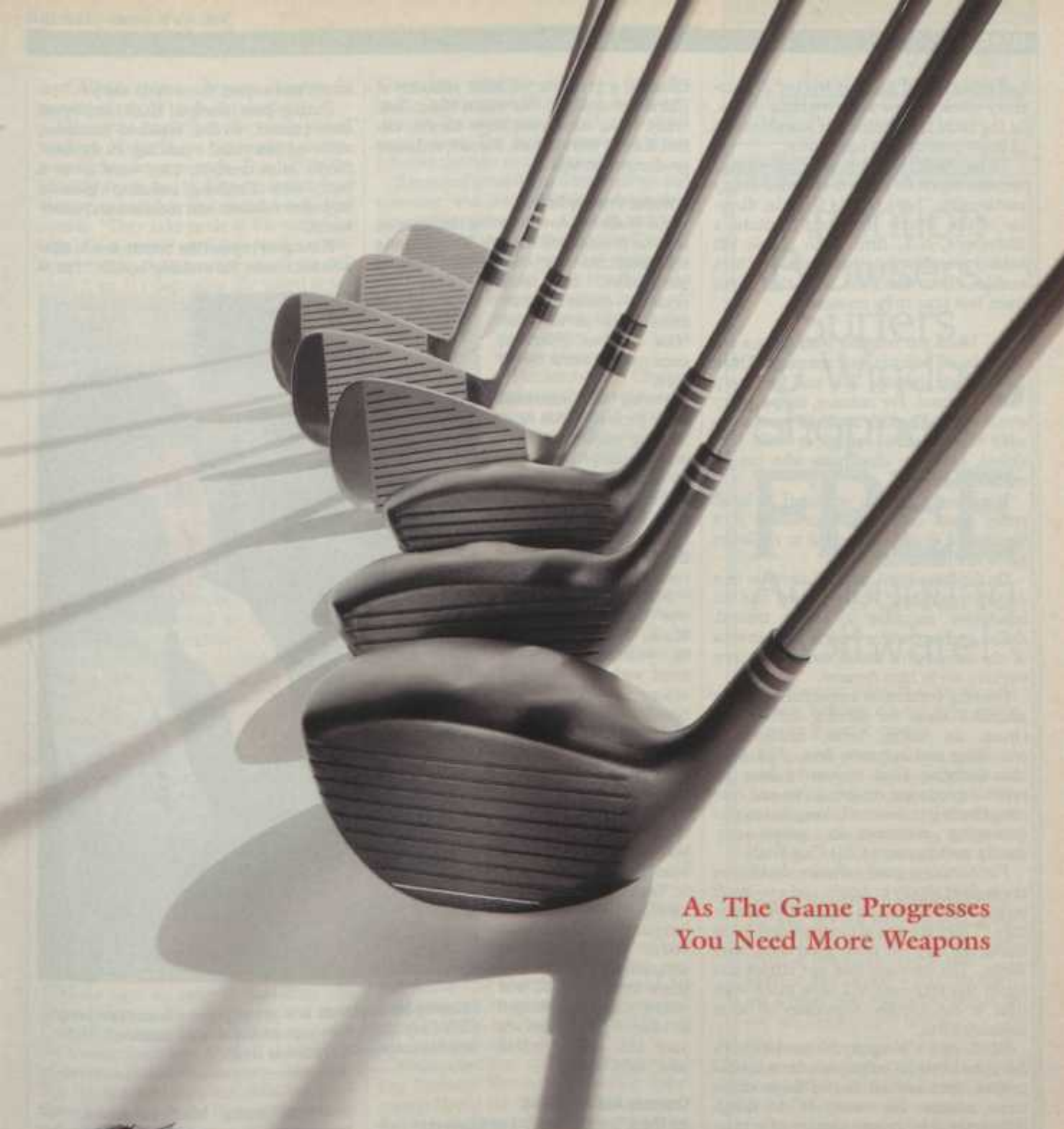
superior customer service that results from a loyal and upbeat work force; and reductions in turnover and absenteeism.

Although it is not clear exactly how many U.S. small businesses guarantee year-round employment, it appears from recent surveys by the American Management Association (AMA) that small firms are only half as likely as large companies to lay off employees. The AMA surveys, which defined small businesses as those with fewer than 500 employees, did not address no-layoff policies directly.

Despite the avalanche of layoffs in the 1990s, there is scant evidence that they are highly effective in boosting profits and productivity, says Eric Greenberg, the AMA's research director. Only 47 percent of companies that said they had slimmed their payrolls since 1990 reported a boost in operating profits within a year after staff reductions, according to one AMA survey. One-third of the firms said they

Harvey Meyer is a free-lance writer in St. Louis Park, Minn.





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had experienced gains in worker productivity within a year after wielding the ax. At the same time, employee morale ebbed at these cost-cutting companies.

"What they're doing is 'dumb-sizing,' because esprit de corps is essential in any partnership," says Gerald Celente, director of the Trends Research Institute, a Rhinebeck, N.Y., firm. "The people left behind are often doing the work of others besides their own jobs, and that gives them less time to be creative."

**S**hould you consider instituting a no-layoff policy in your company? Think twice, because it's not for every business. For instance, such a policy would not make much sense for companies with volatile sales swings or with low-skilled, low-wage employees who can be replaced easily.

Moreover, a written or stated no-layoff policy could create legal problems if a terminated employee decided to challenge his or her dismissal.

On the other hand, it might prove to be a valuable recruiting and retention tool for businesses requiring a highly trained, skilled, and productive work force in an area of the country or in an industry where workers are in high demand.

Offering continuous employment makes abundant sense for Sterling Information Group, an Austin, Texas, management consulting and software firm. Just as a manufacturing plant strives to keep its revenue-producing equipment up and running, Sterling endeavors to keep its income-generating resources—its people—constantly working, says CEO Chip Wolfe.

Furthermore, good software developers are in short supply in Austin, and a no-layoff policy offers Sterling a competitive advantage. "There are a lot of programmers in the world, but very few really good ones," says Wolfe. "The company that can attract and retain the very best will have more work than it can handle, regardless of what industry it's in."

Wolfe says a company he used to work for once hired 25 employees for a special project, then laid off five of them within three months. He vowed to do things differently if he became leader of a company—in fact, he says, much of his management philosophy came from reading *If I Ran the Zoo*, a Dr. Seuss book.

Wolfe, who says the \$7.2 million company has been profitable through all of its 12 years, adds that "once employees are working for us, we want to hang on to them forever; we don't want them feeling uncertain about their future."

A no-layoff policy, whether formal or informal, signals to employees that they're prized, that they're treated as an investment rather than an expense, says Gary

Chaison, a professor of labor relations at Clark University in Worcester, Mass. Generally, when employees know they're valued, they're more secure, happier, and more productive, he says.

#### A Worker-Friendly Benefit

While Wolfe has no supporting statistics, he says he is confident that his 70 employees are "much more" productive than those of competitors. He takes pride in customer comments such as this one: "One of your (Sterling) employees is worth two of ours."

During the occasional slack periods, Wolfe says, Sterling employees work on internal projects such as examining customer-satisfaction reports, or they receive training to update their skills so the firm can pursue higher-margin accounts.

Sterling, which recently was sold to a Newton, Mass., firm, supplements its year-round employment with a mélange of other worker-friendly benefits: medical, dental, and long-term-disability plans; flexible work schedules; up to five weeks of paid vacation a year; profit sharing; and management that strongly encourages pursuit of family and non-work activities.

"Imagine the employee loyalty you get when a company makes sure you're covered between assignments, where you share in the profits, and where you're encouraged to take off so you can see your kids in the school play," says Wolfe.

#### Gratitude And Hard Work

At Hunt Tractor, which was founded in 1922 and where one-third of the employees have been with the firm 20 years or longer, employees appreciated taking home paychecks a year ago during a period when workers at other companies in the industry were being laid off, says Hunt, 75. That gratitude translates into increased productivity and, just as important, improved customer service, he says.

Citing the costs of recruiting and training for posts vacated because of layoffs, Hunt says: "Our people are not robots. You can't just take somebody from off the

street and expect them to do the job."

During past slumps, Hunt employees have painted, roofed, repaired machines, and even renovated a building. In the most recent sales drought, they were given a heavy dose of training, including videos on customer relations and technical and safety issues.

Hunt goes beyond the bottom line to offer another reason for avoiding layoffs: "I'm so

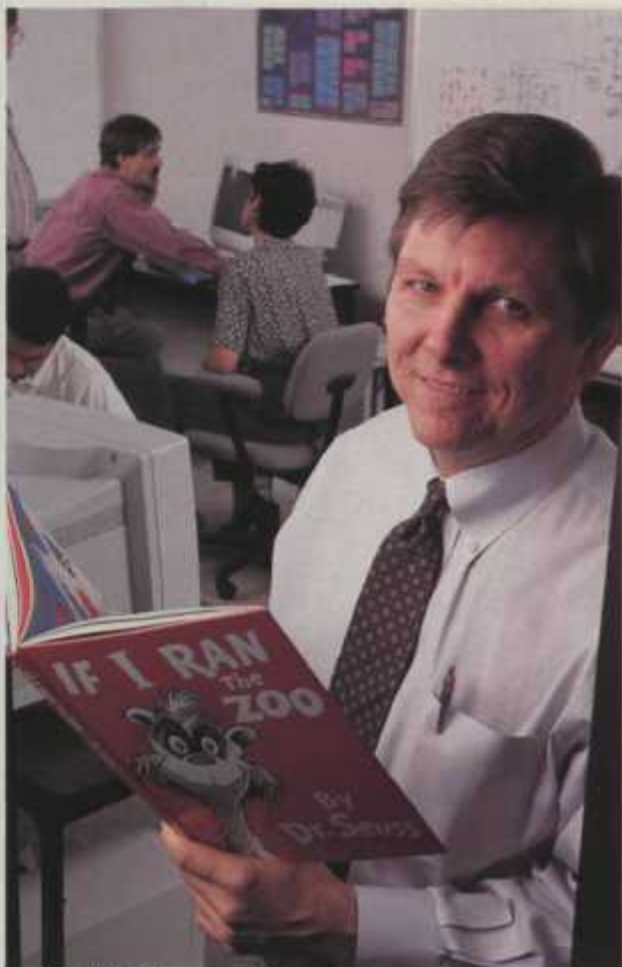


PHOTO: GREG DALLMEYER

**Retaining top employees** is a priority for software-company CEO Chip Wolfe, who says he has drawn business inspiration from a Dr. Seuss book.

weary of seeing headlines saying that businesses are so unfeeling and uncaring and that employees are treated little better than animals. Our business isn't run like that... and I'd like to dispel the notion that we're all only interested in the bottom line."

#### Community Impact

Miske of Custom Business Forms offers another nonfinancial reason for eschewing layoffs: If his employees aren't working, they're not buying goods and services in the community, or they're falling behind on their bills. Either way, the community suffers, and that's something he can't abide,



says Miske, whose company donates 10 percent of pretax profits to charity.

Like other employers who never lay off workers, Miske keeps his employees hopping during down periods. They scrub the building from top to bottom, repair production machinery, and paint inside and outside. "They take pride in the plant," he says. "If a newer employee writes something on the wall, another employee will clean it up. It's degrading [for them] to see someone writing on the wall because it's their wall."

Miske often uses the time to cross-train employees—a valuable asset when the company is short-staffed and needs to respond quickly to customer orders. "If I had an MBA, perhaps I'd be looking at layoffs," says Miske, who didn't attend college. "God," he jests, "don't let me get any smarter."

Like other employers with no-layoff policies, Miske offers employees a swarm of benefits, including profit sharing and medical and dental plans. Additionally, the company regularly treats employees to "Hot Dog Days," "Sweet Corn Days," and other informal gatherings.

Over time, that goodwill translates into a loyal, productive work force that quickly responds to rush orders from customers. If Custom Business Forms were in perilous financial condition, Miske says, he's confident that many of his employees would work without pay for a week to salvage the firm.

"Oh yeah, I'd be willing to do that for Frank and the company because he's kept us working when times have been tough," says Jeff Bracker, a lead pressman.

Miske says he believes that high employee morale is a major reason why Custom Business Forms employees voted out a union years ago. And it is at least part of the reason that his company—like Sterling Information Group and Hunt Tractor—doesn't have to pay the highest wages in its industry, he says.

#### Potential Drawbacks

Of course, a no-layoff policy can have pitfalls. Chief among them is the degree to which it restricts the business owner's ability to respond to a cash-flow crunch. Hunt Tractor swallowed a "substantial sum" early in 1996 by keeping everybody on the payroll instead of temporarily laying off five workers, Hunt says.

And some employees may take advantage of a no-layoff policy—even an unwritten one, such as Custom Business Forms'.

There, one employee who was fired for spotty attendance threatened a lawsuit, claiming the company offered year-round employment. The former employee never followed through on the threat.

Because of possible legal implications and economic and competitive uncertainties, labor-relations expert Chaison advises against offering a written no-layoff guarantee. That doesn't mean that companies can't "strongly imply" a no-layoff climate through their history of never laying off anyone and through the other ways they treat workers, he says.

Furthermore, Chaison suggests that firms considering a no-layoff environment carefully structure their performance-appraisal and termination procedures and that those procedures be spelled out in writing and clearly communicated before an employee is hired.

Firms that promote year-round employment, directly or indirectly, he

says, should think through the ramifications of halting such a practice.

#### No-Layoff Alternatives

While no-layoff policies apparently are rare, small firms have a number of options before resorting to reductions in their work force.

In a survey of 1,024 human-resources executives conducted by Right Associates, a Philadelphia-based career-management and human-resources consulting firm, 70 percent considered a hiring freeze as an alternative to layoffs. And 45 percent considered restrictions on overtime.

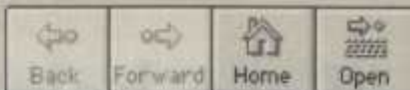
Much smaller percentages reported considering pay reductions, job-sharing, payless holidays, or shortened workweeks. By instituting one or more of these measures, companies can cut costs substantially and eliminate the need to downsize.

While executives at Hunt Tractor, Custom Business Forms, and Sterling Information Group say they would temporarily furlough workers to save their companies, it's clear that such action would be a last resort. They have derived too many benefits from keeping workers on the payroll even when laying them off would have been defensible for cash-flow reasons.

"Not laying off is just a good way of leveraging your most valuable asset—your people," says Sterling's Wolfe. "If you've got people you've trained, who understand your business well and are productive, it doesn't make sense to lay off. You should be able to find a strategy to keep them working."

**"Not laying off is just a good way of leveraging your most valuable asset—your people."**

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## INSURANCE SPECIAL REPORT

# Finding Coverage For Small Offices

By Stephen Blakely

**A**fter running a successful computer-training company from their home in Germany for six years, Anita Denunzio Wagner and her husband, Frank, moved back to Florida in 1996, bringing their business with them. To their surprise, the biggest obstacle to starting up Next Generation Training in their home in the United States was simply finding insurance for the business.

"Florida has hurricanes and is considered a high-risk area," Anita Wagner says, "so many insurance companies have stopped serving this area," reflecting the legacy of Hurricane Andrew in 1992, which cost the industry a record \$15.5 billion in insured losses.

But the reason some insurers wouldn't cover her business, she continues, "was because we were a home-based business, and as soon as they heard 'computers,' they were turned off."

With their livelihood invested in \$10,000 worth of computer equipment and the room they had added to their home near Clearwater to serve as a training studio, the Wagners decided they needed risk insurance: property-loss coverage, in case of theft, damage, or destruction of their computer gear, and liability protection, in case of accidental injury to a client during instruction.

Not insuring the business—an option that some firms choose—was a risk they refused to take.

"I had a really hard time finding insurance," Wagner recalls. "It was the nightmare of my life."

After several months of research, the Wagners discovered the Small Office Home Office Association (SOHOA) in Reston, Va. It offers its members an insurance package designed specifically for small businesses and underwritten by the ITT Hartford Group. For a \$450 annual premium, the Wagners now have insurance for their equipment (even when it's on the road) as well as business-premises liability coverage up to \$2 million.

While the Wagners ultimately solved their insurance problem, their experience illustrates a larger issue: Small-office and home-based businesses, whose numbers are increasing rapidly in the United States, too often don't have or can't find the insurance they need.

For almost any company, experts warn, operating without property or liability coverage is a huge risk. A small-office or home-based business that burns down or is sued is probably doomed if it's not adequately insured.

"We estimate that 50 percent of small businesses are either not insured or are grossly underinsured," says Sean Mooney, executive vice president of the Insurance Information Institute in New York City and author of *Insuring Your Business* (\$25), published by the institute. "Some of it's the entrepreneurial spirit—the last thing they think of is covering risk. Some of it's money—they can't afford the premium. But if a disaster occurs, they're out of business."

Most experts cite a few basic reasons for the small-business insurance problem. There's a shortage of affordable, tailored products from underwriters, they say, and business owners are either poorly informed about, or unable to afford, the coverage that is available.

But as this business sector continues to grow, a few big-name and niche insurance companies are beginning to offer policies designed to meet the specific needs of small and home-based offices.

## A Growing Market

The market for insurance on small-office and home-based businesses has grown throughout the 1990s. There were roughly 4.2 million firms with nine or fewer workers in 1994, up almost 8 percent from 3.9 million in 1988, according to the latest



PHOTO: GREG FERRO

data compiled by the U.S. Small Business Administration. A large part of that growth is attributed to individuals working at home.

The numbers may be even greater, according to a separate calculation—the U.S. Bureau of Labor Statistics' survey of "homeworkers," a broadly defined group that includes white-collar professionals who take work home. The latest survey concluded that 20 million people worked from their homes in 1991.

The Home Business Institute, a trade association in White Plains, N.Y., estimates that since that survey, the number of people who work at home has risen to 25 million, a 25 percent increase. (See the



*Many small-office and home-based businesses either don't have or can't find insurance; here's how they can rectify the situation.*



*It took some doing, but Anita Demenzio Wagner and her husband, Frank, finally found insurance for their home-based computer-training business in Dunedin, Fla.*

chart on Page 32.)

Experts cite three main reasons for the boom in small-office and home-based businesses:

- The wave of corporate restructurings in recent years flooded the labor market with many skilled workers who have turned to nontraditional employment.

- Powerful and low-cost computers enable small shops to produce highly sophisticated products combining text,

data, and graphics.

- With the Internet and other modern communications technologies, small and home offices, regardless of their location, can "plug in" easily to the information-based economy.

"As corporate America is downsizing, people are looking at alternative work," observes Gary Roth, chief operating officer of the Insurance Services Group in Towson, Md. He is a specialist in insurance for small offices and home businesses and is SOHOA's broker. "The proliferation of the personal computer and the Internet," he says, "has made this type of business more viable. These developments have led to an explosion in this market. And the insurance industry has been largely ignoring it."

#### The Major Categories

The Insurance Information Institute's Mooney says owners

of small-office or home-based businesses should be aware of four major insurance needs:

- Property/casualty and liability protection. These are commonly packaged in a business owner's policy, or BOP.

- Workers' compensation insurance for employees.

- Disability coverage and life insurance for workers and managers.

- Health insurance for workers and managers.

Generally, property/casualty and workers' compensation insurance are not optional. For instance, landlords typically require commercial tenants to get business insurance before a lease is signed. Many

communities make building contractors post a performance bond before they can get a business license. Banks may want coverage on the inventory they finance. And workers' comp coverage is required by law in all but three states (New Jersey, South Carolina, and Texas) to protect employees who suffer job-related injuries.

On the other hand, some kinds of insurance may not be needed. Home-based writers who have no visitors other than a delivery service, for instance, or consultants who work mostly on the road may not need liability coverage on their offices.

Moreover, health and disability insurance are generally optional.

#### The Basics Of The BOP

The starting point for most small businesses that are considering insurance is the BOP, which provides basic property coverage for computers, among other things, and liability protection for work-related accidents both inside and outside the office. Some BOPs also include business-income protection, sometimes called profit protection or out-of-business coverage.

This coverage will maintain your income stream, usually for up to a year, and pay for extra expenses, such as renting new facilities or equipment, if a catastrophe interrupts your operations.

Mooney notes that the typical BOP does not include certain specialized types of coverage, which are available at extra cost and could prove valuable. These include:

- Coverage against power failures and mechanical breakdowns. This is important if your business depends on electronic, heating, or refrigeration equipment.

- Workplace-practices coverage. This is liability protection against legal action involving sexual-discrimination or sexual-harassment complaints and lawsuits involving the Americans with Disabilities Act.

- Natural-disaster coverage for floods or earthquakes. This insurance is often hard to obtain where it's needed most, such as coastal areas or earthquake-prone regions along the West Coast.

- On-line insurance to protect business activity in cyberspace.

#### Guarding Against Mistakes

One of the most important—and often most expensive—kinds of specialized cov-



## INSURANCE SPECIAL REPORT

erage is professional-liability insurance. Also known as errors-and-omissions insurance, this protects professional-service providers—such as financial, tax, or legal consultants—if they are sued for mistakes that caused their clients loss or damage.

Jay Lutz, owner of Lutz & Associates in Walnut Creek, Calif., had to line up this kind of coverage recently to keep a customer. Among the services provided by Lutz's home-based business is the management of residential properties, and last year a condominium board decided he had to obtain professional-liability coverage if he wanted to retain his contract.

"In an abundance of caution, they asked for it," says Lutz. "Since then, other properties have moved in that direction as well. I may be expanding that line of work, and it was something we probably would have had to do anyway."

Lutz says his biggest difficulty was finding an insurance agent who knew enough about small-office and home-based businesses to find an appropriate and affordable policy. "My neighborhood insurance agent couldn't help," he recalls. "The important thing is dealing with people who are familiar with the needs of the small office." After a few phone calls, Lutz found such an agent. (See "Contacts For Coverage," on Page 34.)

#### Turning Toward Home

Experts say that one of the most common insurance mistakes of home-based entrepreneurs is assuming that their homeowner's policy automatically covers business activity at home. That assumption usually is incorrect.

Many business owners get a rude awakening when they find out they're not covered under their homeowner's insurance, says David Hanania, founder and president of the Home Business Institute. "The homeowner's policy won't cover them if a client comes to their home and is injured. If someone trips and falls, or pops a kneecap like President Clinton, you need coverage."

Similarly, your homeowner's policy won't cover you if, say, your basement catering business causes an outbreak of food poisoning, or if the Internal Revenue Service discovers that your accounting service has been filling out customers' tax returns incorrectly and the clients sue you.

The typical homeowner's policy puts a

\$2,500 cap on coverage of electronic equipment in the home—not much help if your pricey laptop computer is stolen. Because home-based businesses frequently have a number of computers and other sophisticated communications equipment, some of it portable, they need special coverage that specifically includes computers and related gear used in the office or on the road.

And because what's inside the equipment is often more valuable than the hardware itself, it's also a good idea to insure your data and information through electronic data processing, or EDP, coverage.

protection both on and off the premises. Traveler's Property Casualty Corp. of Hartford, Conn., offers a similar product, Home Business Endorsement.

But not all insurance companies are as flexible. Hanania cites the experience of one Home Business Institute member who says he was dropped by his homeowner's insurance carrier merely for asking about a home-business endorsement. "The guy had to scramble to find [homeowner's] coverage," Hanania says.

Some underwriters, however, are recognizing a new opportunity as small-office and home-based businesses proliferate.

Two recently designed business-owner's policies are the In-Home Business Program, offered by RLI Corp. of Peoria, Ill., and SPECTRUM, offered by the ITT Hartford Group, based in Hartford. The former coverage is available nationwide, and the latter is offered in every state except Alaska and Hawaii.

The basic In-Home Business Program policy has a \$150 annual premium and a \$100 deductible. It offers up to \$5,000 in business-property coverage (including off-premises losses); up to \$1 million in general liability; up to \$300,000 in business-liability coverage (excluding professional liability); and loss-of-income protection for up to one year based on the previous year's income.

SPECTRUM's basic policy has a \$350 annual premium and a \$250 deductible, and it offers business-property protection. Coverage includes up to \$5,000 for office property; up to \$10,000 for computers and electronic equipment (including off-premises and in-transit equipment) and business property of others; \$500,000 worth of liability protection for business premises and automobiles; and loss of income for up to 12 months.

The State Farm Group of Bloomington, Ill., the nation's largest underwriter of property/casualty and homeowner's insurance, entered the home-business market on March 1 with its Business In The Home Program. The company says the program, introduced in several states, should be available nationwide within a year.

With a minimum annual premium of \$100 to \$150, the policy is customized to each business for property coverage, and it offers up to \$600,000 in general-liability protection (excluding professional liability) as well as loss-of-income protection.

All three policies can be modified—at additional cost—to provide higher property

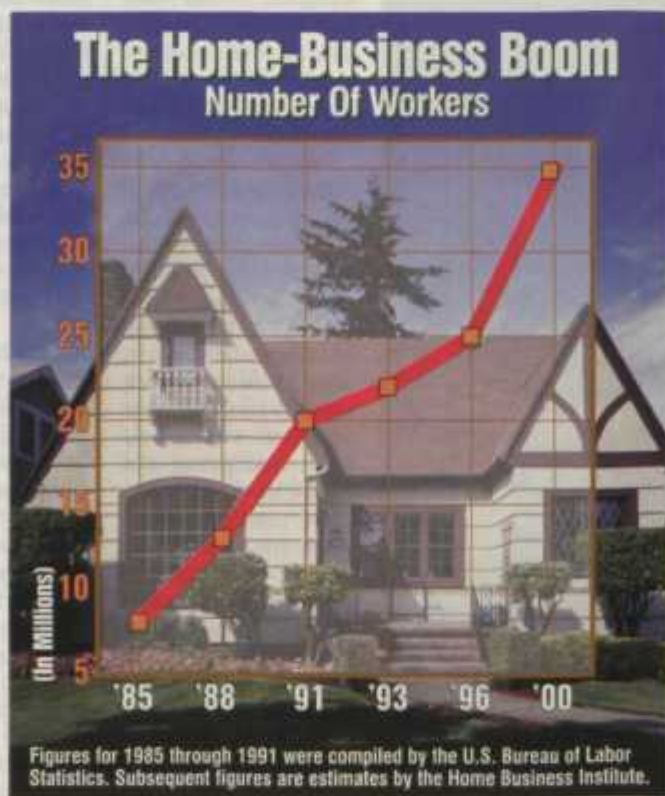


CHART: KATHLEEN VETTER

A major source of business-computer insurance in the United States is Safeware, The Insurance Agency, Inc., of Columbus, Ohio. A typical policy provides \$11,000 to \$14,000 of hardware and software coverage for \$129 a year, with a \$50 deductible.

#### Riding Right Along

Depending on the insurance company and the nature of the firm's work, the most cost-effective solution to meeting the insurance needs of a home-based business may be simply to add a rider or endorsement to the homeowner's policy—usually at a nominal charge.

For instance, CNA Insurance of Chicago offers HomeWork, a homeowner's endorsement policy available in 22 states. It greatly expands coverage of office equipment, including computers and cellular phones, and provides liability





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When a condominium board insisted, property manager Jay Lutz obtained professional-liability insurance for his home-based business.

limits or extended liability. ITT Hartford and RLI market their policies through trade groups as well as agents. For instance, SPECTRUM is available through SOHOA as the Small Office/Home Office Package, while the In-Home Business Program is offered through the Home Business Institute and the Independent Business Alliance in New York City, among other groups. State Farm markets its policy only through agents.

#### The Insurer's Perspective

In the insurance industry, small-office and home-based businesses are becoming more attractive as potential customers because of their growing numbers and their national scope. Gary Roth of the Insurance Services Group, for instance, explains that ITT Hartford can sell the Small Office/Home Office Package in high-risk states "because we're bringing in clients from all over the country, and that gives [the insurer] spread of risk."

But even as small-office and home-office insurance becomes more widely available, it's still offered selectively, Roth points out. Underwriters rate individual businesses by their assigned level of risk. "Some businesses are very low-risk and easy to write," Roth says. "Others are higher-risk, and at some point [underwriters] may not be writing a policy for the company."

For these kinds of businesses, "surplus" or "residual" underwriters are used. These are insurance companies that write insurance for only one particular class of business. This sort of coverage, which usually includes professional-liability insurance, is

expensive and sometimes hard to find without a knowledgeable insurance agent.

What represents a good risk to an insurance company? A typical example would be a consultant who merely dispenses advice.

What does the industry consider a bad risk? Any kind of manufacturing business, especially one that makes children's toys or clothing. (Until age 21, a person can sue for injuries allegedly sustained in infancy,

which creates potentially long-term exposure for manufacturers and their underwriters.)

Day-care centers carry the risk of child-abuse lawsuits. Small gumball-type dispensers look to insurers like accidents waiting to happen if the machines aren't bolted to the floor. Rock-concert promoters also get a bad rap with insurers, and food-related firms give agents heartburn.

#### Minimizing The Risks

How can a small-office or home-based business improve its risk management? Roth suggests that such a business take stock of its property and liability risks, set a ceiling on the amount of risk it is willing to bear, and take steps such as these to minimize risks:

- Install smoke detectors, extra fire extinguishers, and proper locks.

- Keep your workplace clean and clear of obvious hazards to visitors; if you have clients coming to your home, for example, make sure there are no children's toys underfoot.

- Back up your computer data often, and store it securely off site.

- Properly train your employees and maintain your equipment.

- Don't do shoddy work.

"Make sure you're putting out a good product, whether it's manufactured or a service," Roth tells his business clients. "Quality control should be your No. 1 priority."

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## Contacts For Coverage

The following companies and organizations can provide further information on small-office, home-office coverage.

#### Associations

Home Business Institute, White Plains, N.Y.; 1-888-342-5424; [www.hbiweb.com](http://www.hbiweb.com)

Home Office Association of America, New York City; 1-800-09-4622;

[www.hoaa.com](http://www.hoaa.com)

Independent Business Alliance, New York City; 1-800-559-2580;

[www.ibonline.com](http://www.ibonline.com)

Insurance Information Institute, New York City; 1-800-331-9146; [www.iii.org](http://www.iii.org)

Independent Insurance Agents of America, Alexandria, Va., free brochure, *Protecting Your In-Home Business*; 1-800-261-4422.

National Association for the Self-Employed, Washington, D.C., (health, disability, and life insurance only); 1-800-

232-6273; [www.nase.org](http://www.nase.org)

Small Office Home Office Association, Reston, Va.; 1-888-764-6211; [www.sohoa.com](http://www.sohoa.com)

#### Insurance Companies

CNA Insurance, Chicago, (homeowner's endorsement); (312) 822-5000;

[www.cna.com](http://www.cna.com)

Insurance Services Group, Towson, Md.; (410) 296-5700.

ITT Hartford Group, Hartford, Conn., (Small Office/Home Office Package); 1-800-448-5462; [www.itthartford.com](http://www.itthartford.com)

RLI Corp., In-Home Business Insurance, Peoria, Ill.; (309) 692-1000; [www.rlicorp.com](http://www.rlicorp.com)

Safeware, The Insurance Agency, Inc., Columbus, Ohio, (computer coverage); 1-800-800-1492; [www.safeware-ins.com/](http://www.safeware-ins.com/)

Travelers Property Casualty Corp., Hartford, Conn., (home-business endorsement); (860) 277-0111; [www.travelerspc.com](http://www.travelerspc.com)



## MARKETING

# How To Reach Older Consumers

By Peter Weaver

A major demographic shift is starting to affect nearly every type of business in the United States, and companies that recognize it can profit from it.

The majority of the nation's adult population will be 50 or older in five years, according to the U.S. Census Bureau. Just seven years ago, the majority of adults were 40 or older. Over the next 25 years, the agency says, the under-50 population will increase by only 3 percent, but the over-50 population will expand by a whopping 73 percent.

To survive in this changing consumer climate, "retailers, manufacturers, and service industries will have to depend increasingly on older adults who go about buying products and services very differently than younger adults," says David R. Wolfe, a marketing consultant in Reston, Va., and the author of *Serving an Ageless Market* (McGraw-Hill, \$25).

Research shows, for example, that older consumers are less influenced by peer pressure than younger buyers are; it's just not as important as it used to be to own something because someone else does. So, advertising that invokes benefits related to social status is not likely to play in older markets as well as it might in younger ones.

In addition, younger people typically spend their money on possessions—homes, cars, sound systems, computer equipment—while older consumers, likely to own such things already, often prefer to buy experiences, such as excursions that offer educational and personal-growth opportunities rather than simple getaways.

Mature adults like to review a lot of facts before they decide to buy a major item. So business people need to be patient and to be ready to supply a lot of information about their products or services.

"If you want to attract and retain older buyers," Wolfe says, "you have to work on building relationships." Automobile dealers, for example, are finding that their salespeople have to take the time to help older buyers get what they really want; trying to make a hard-sell deal in a hurry may not be a good strategy.

"Establishing a relationship with older buyers is of primary concern to us," says



PHOTO: STEVE WORT

The community spirit at the Valley View fitness club in LaCrosse, Wis., appeals to its over-50 members, says Assistant Manager Lisa Okoren; with her is client Ronald Roach.

Kurt Atchinson, owner of Atchinson Ford in Belleville, Mich. "This age group wants to take more time and make friends with our salespeople. They're not spontaneous reactors like younger buyers."

Todd Nelson, general sales manager for Century Buick, a dealership in Tampa, Fla., has adopted a similar relationship-based approach. "We don't hire new salespeople who have had anything to do with the car business," he says, "because we want to train them from scratch to take plenty of time to find out what the older customer needs to be happy."

Both dealerships, like many others, have salespeople contact buyers after the sale. "A week or so after we deliver a car," says Nelson, "we drive over to the buyer's home to say hello and make sure everything's OK and that they understand how to work such complicated things as clocks, memory seats, and the electronic air conditioning." Sixty days after the personal visit, Century Buick phones the customer to check again on how things are going with the car and the service, and it calls again 90 days later.

Does this type of service really work? "Every month we're getting 40 to 50 percent repeat business or referral business," says Nelson.

*Firms that take suitable approaches to the expanding ranks of those over 50 can build a loyal core of customers.*

## Don't Call Them Seniors

While working to build relationships with older buyers, "you have to be wary of singling them out," says restaurant consultant Marya Charles Alexander, "because they don't want to be stereotyped." Alexander is president of Communications Concepts in South Pasadena, Calif.

Consultant Wolfe makes a similar recommendation: "Merchants and others would be better off abandoning the term 'senior' in their advertising because it has acquired such narrow meanings, many of which are negative. Older people frequently feel chagrined at being referred to as 'senior citizens.'"

Wolfe suggests that so-called senior-citizen discounts may not create customer loyalty: "With airline fares, early-bird dining, and movie tickets, older consumers will take what you give them. But you probably won't get many new long-term customers with this type of offer."

## Names, Dates, And Preferences

Personal attention and variety of choices have built loyal customers, especially in the restaurant business.

While almost everyone likes personal recognition, people over 50 are especially



## MARKETING

impressed when a restaurant owner or waiter remembers them by name.

Says Mark McDonnell, owner of the LaSalle Grill in South Bend, Ind.: "We've set up a low-tech customer-loyalty program where we write regular customers' names down on 5-by-7 cards, indicating what table they like, who their server was, and what dishes they liked." Special events such as birthdays, anniversaries, and the birth dates of grandchildren are noted, too.

When a customer arrives at the LaSalle Grill, the hostess or floor manager unobtrusively checks the card file to see if the restaurant has a record noting the person's preferences. If so, the information is given to the server, who greets the customer by name.

McDonnell is convinced that such attention builds customer loyalty, which creates repeat business and coveted word-of-mouth advertising. "We have a good mix of older and younger customers up to around age 70 or so," says McDonnell, "and we're beginning to see more people between 50 and 70 than we do between 20 and 40."

At Seattle's Country Harvest Buffet, Shirley Osborn, manager of guest services, says: "We have lots of older customers who regularly dine with us because we offer lots of choices for a main course, fruits, and vegetables at our buffet tables."

### Making Connections

In retailing, the way that customers are treated at the point of sale is critical to building loyalty. Younger salespeople often don't know how to develop relationships with older customers.

"A lot of clothing retailers aren't getting the message," says Lisa Cunningham, an image consultant in Manhattan who teaches at the Fashion Institute of Technology there. "They tend to hire young people who just want to push more merchandise as fast as possible with little if any attention directed toward the older customers' needs."

Here and there, Cunningham says, you can find a salesperson who tries to build long-term relationships by keeping card files on customers, listing details such as sizes, special wardrobe needs, and color preferences. Then those customers can be called when something they've shown a liking for in the past is going on sale.

Says Wolfe: "You have to demonstrate some leadership, let your young salespeople know that you really want to attract older customers, and show a commitment that

you want their business." Because older consumers typically like to be loyal, repeat customers and to give referrals to their friends, he says, "think of the time and effort you put into attracting them and retaining them as an investment, as part of



PHOTO: GREG PERRO

**Special attention for older customers builds repeat business for Century Buick in Tampa, Fla., says Todd Nelson, general sales manager, conferring with Scott Holiday, new-car manager.**

your assets with a rightful place on your balance sheet."

### Working Out

A commitment to building mature-customer loyalty also pays off in the fitness business, which has cultivated the young-adult market for many years. But some fitness companies are changing their ways to attract older members.

Two years ago, the Valley View Fitness and Racquet Club in LaCrosse, Wis., started its Fit Over Fifty program. The club has found that the customers the program attracts are ready, willing, and able to get into shape and stay there. "The ages range from the mid-50s into the mid-70s, and business has been very good," says Lisa

Okoren, assistant manager at Valley View.

The club's managers say prospective older customers like to try out the program and take their time deciding whether to join. "But once they sign on," Okoren says, "they become the most committed people I've ever worked with."

To attract more of these loyal exercisers, says Okoren, the club's advertising shows "real people at real ages and stages—not a lot of hard bodies in spandex."

Unlike younger club members, who typically leave right after workouts, many older members linger and socialize. "We have a social program once a week," Okoren says, "and the Fit Over Fifty group really likes this kind of tight community spirit."

### Refurbishing And Remodeling

Mature-adult purchasing power also is making a big impact on the home-remodeling and home-furnishing businesses. Because many older consumers have more free time and more disposable income than younger adults, an increasing number are choosing to spend money renovating kitchens and other rooms in their houses.

The National Association of the Remodeling Industry has found that increasing numbers of older people are deciding to stay in their family homes rather than move to retirement communities.

While new-home starts have decreased by nearly half since the 1970s, the remodeling business has been booming. Mike Trafton, owner of Trafton Builders, a remodeling company in Pinedale, Calif., says the bulk of his growing business "is coming from older homeowners who want to stay put and enjoy a freer, more relaxed lifestyle."

Many of these homeowners are making space to accommodate their grandchildren when they visit. The Census Bureau says the so-called seasoned-grandparent market, ages 65 through 75, has the highest percentage of discretionary income—higher than that of any other 10-year age bracket.

**A**s the mature-adult market grows in the years ahead, says Wolfe, those who plan to profit by it should keep these goals in mind: "By helping to make life simpler, the negotiations friendly, and the final sale joyful, you'll build a vital business relationship and might well have yourself a customer for life."



## ENTERPRISE

# Program Delivers Winning Hands

By Michael Barrier

As Carol Conway describes it, the life of a small-business owner such as herself sounds a little harrowing. "You're on the edge," she says. "You're constantly challenged by decisions. There are no rules, because it's yours. You decide." And for that reason, she continues, "it's powerful; it's invigorating. You really have to have the stomach for it. There are people who are entrepreneurial, and I'm one of them."

John Gill is another. He speaks of the determination an entrepreneur can feel when a good idea comes along: "This thing hits you inside that you seem to know, but no one else does."

The acid test of an entrepreneur's mettle comes when a company faces extinction. "We would have been much better off if we had just walked away from the place" and started a new business, says Arnold "Jerry" Hendelman of a dark passage in his firm's history. He and his co-owner, Harold L. Goldin, did not want to impose the costs of failure on their suppliers and employees. "We had to beat the thing," Goldin says. "We had to succeed."

Many entrepreneurs will hear their own voices in the words spoken by Conway, Gill, Hendelman, and Goldin—owners of three of the four companies selected as national Blue Chip Enterprises in the 1997 judging for the Blue Chip Enterprise Initiative. The annual program was created to honor small-business people who, like them, surmounted significant challenges on their path to success.

The Blue Chip Enterprise Initiative is entering its eighth year, under the co-sponsorship of Massachusetts Mutual Life Insurance Co. (known as MassMutual—The Blue Chip Company), the U.S. Chamber of Commerce, *Nation's Business*, and "First Business," the Chamber's syndicated morning business-news television program. Applications for the 1998 competition are now being accepted.

Since 1991, more than 1,000 small businesses have won the Blue Chip Enterprise designation, 167 of them earlier this year.

As John B. Davies, executive vice president of MassMutual, says, "These are truly America's extraordinary business people. They had the courage and energy to translate their dreams into reality. MassMutual believes these tales of survival, often against overwhelming odds, deserve to be told."

The designees have over-

*The Blue Chip Enterprise Initiative kicks off its eighth year of highlighting small firms' imagination in meeting challenges.*

come almost every kind of challenge. Sometimes it has been a devastating fire or a natural disaster, such as a flood or tornado. Sometimes the challenge has been a financial calamity: A firm may have run into cash-flow problems and had to file for Chapter 11 bankruptcy protection.

For most small businesses, though, the biggest challenge is not a life-threatening disaster but something far more pervasive: having enough imagination to spot and take advantage of the opportunities that may be hidden in even the most unpromising circumstances. If there's a common theme in the stories of the Blue Chip Enterprises, it is that they have surmounted that challenge, often spectacularly so.

That is true of Wallace J. Bronner, whose Frankenmuth, Mich., store, **Bronner's Christmas Wonderland**, was chosen as a national Blue Chip Enterprise this year. Bronner's is a Christmas store, like many hundreds of other stores across the country; but at five acres it is by all odds the largest, despite its relatively remote location. It developed that way through a continuously imaginative response to customers, starting more than 50 years ago, when Wally Bronner was in the sign-painting business.

Today at Bronner's, as always, "everything is customer-driven," Bronner says—but not in the discount-store manner, in which the product mix is changed with dazzling speed in response to sales. As Bronner's son Wayne, the store's assistant general manager, points out, "we have to merchandise what we sell" because Bronner's makes so many one-shot purchases overseas for the Christmas season. To be customer-driven at Bronner's means continuously putting yourself inside the customer's head.

The other national designees overcame challenges of a more dramatic kind, but they all showed the same imaginative flair:

**Computer Rescue Squad**, Carol Conway's Cape Coral, Fla., company, was a two-employee fix-it operation when





## ENTERPRISE

she bought it in 1993. She envisioned it as a much larger and more profitable company specializing in local area networks (LANs) of computers at a single location—a kind of company that didn't even exist in the area then. She transformed that idea into reality, but only after she and her husband, Kevin, had all but exhausted their financial resources. Computer Rescue

than the old one, and now that revenues are more than three times as high as the old company's ever were, he is expanding the company's product offerings in ways that promise much greater growth.

#### Stories Of The Honorees

The full stories of the 1997 national Blue Chip Enterprises were told in the April

was "deluged" with opportunities to increase her company's visibility—through articles in newspapers and local and national business magazines, for example, and membership in several prestigious groups.

"Receiving this recognition has elevated my company to a new level," she says, "giving us credibil-



Among the CEOs of past winners of national Blue Chip Enterprise honors, from left: 1993, Dr. George Lopez of ICU Medical of Irvine, Calif.; 1994, Michael Tourkistas (center) of East Coast Seafood,

Lynn, Mass.; 1995, Patricia Biedar of Priority Manufacturing in Wood Dale, Ill.; shown here with daughter Patte; 1996, Michael R. Cunningham (center) of Cunningham Graphics in Jersey City, N.J.

Squad now has 17 employees and \$2 million in annual revenues.

**Accutec**, a Wallington, N.J., company owned by Hendelman and Goldin, was driven to the edge of extinction by an employee's multimillion-dollar thefts. Imagination was their ace in the hole. Accutec is in the specialty advertising industry—it produces pens and flashlights imprinted with the names of many of the largest U.S. corporations—and imagination is essential to long-term success in that field. Most items have only a five-year life at most, Hendelman says, "so you constantly have to update designs and finishes." Accutec's success at coming up with appealing new items kept the orders—and the vital cash—coming in, enabling it to survive.

**Howard Fabrication** in Industry, Calif., emerged from the wreckage of a respected metal-fabrication company that went bankrupt after it was taken over by a large corporation. John Gill saw in that wreckage the opportunity to create a company that would be even more successful

issue of *Nation's Business*, in "Taking Risks, Reaping Rewards." Next year's national designees, to be chosen by a panel of judges as the most exemplary companies among the applicants, will be profiled in the April 1998 issue. The 1998 national designees will receive their trophies during ceremonies in February at the U.S. Chamber's annual meeting in Washington, D.C.

As many as 200 small businesses will be chosen as Blue Chip Enterprises and receive their trophies in regional ceremonies. About 50 of the Blue Chip Enterprises will be profiled in video segments on "First Business," and those profiles will be collected in a three-cassette video library. The stories of all the 1998 designees will be collected in the annual book *Insights and Inspirations: How Businesses Succeed*, copies of which will be provided free to each company.

Beyond its immediate benefits, designation as a Blue Chip Enterprise can have ripple effects that may be even more valuable in the long run. In the weeks after Computer Rescue Squad won its national award, Conway says, she

ity that only national status can confer. Frankly, it has been a ball!"

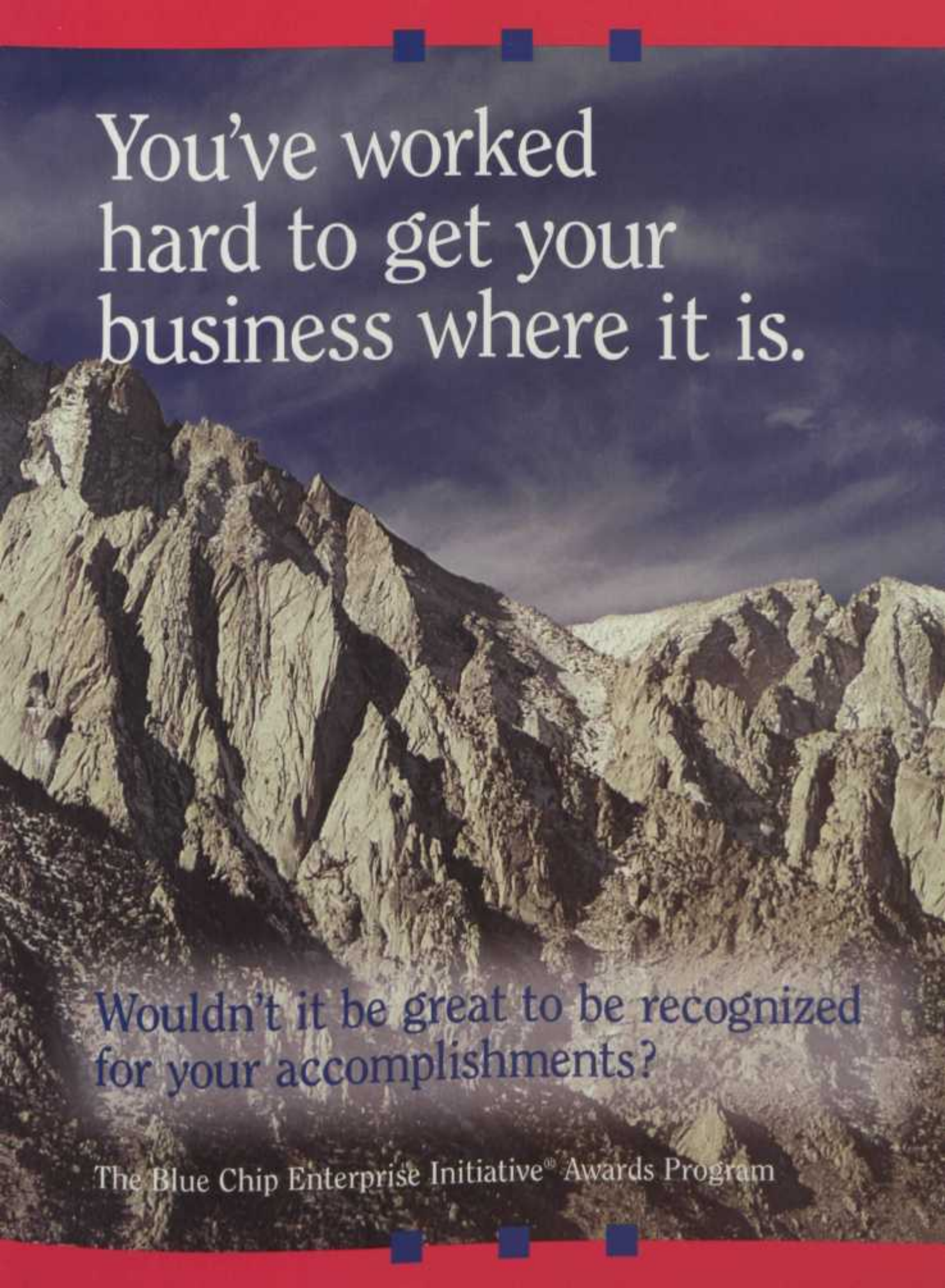
#### How To Apply

Any for-profit company that has been in business at least three years, employs five to 400 people, and has overcome significant challenges is eligible to apply for designation as a Blue Chip Enterprise. The deadline for applications for the 1998 program is Oct. 17; an application form is part of an advertising insert following this article.

Application information can also be obtained from many state and local chambers of commerce and from MassMutual associates around the country; or call 1-800-FOR-BCEI (1-800-367-2234). You can send an electronic-mail request for information to [bluechip@nation'sbusiness.org](mailto:bluechip@nation'sbusiness.org), or check [www.nation'sbusiness.org/bluechip.html](http://www.nation'sbusiness.org/bluechip.html) on the Internet.

All applicants will receive copies of the current edition of *Insights and Inspirations* and the video library. Copies of both are also available for sale (through the telephone number above) at \$8.95 for the book and \$20 a volume for the video library, or \$50 for the set of three videocassettes. NB





You've worked  
hard to get your  
business where it is.

Wouldn't it be great to be recognized  
for your accomplishments?

The Blue Chip Enterprise Initiative<sup>®</sup> Awards Program



# Program



The Blue Chip Enterprise Initiative® recognizes small businesses that have demonstrated the ability to withstand the cyclical nature of business, overcome **adversity**, seize opportunities and succeed. Through a national application process, the Initiative seeks to identify and learn from small businesses that have successfully **managed resources**, committed to excellence and **emerged stronger**.



Their real-world ideas and solutions are collected and disseminated locally, regionally and nationally. Since the program's inception in 1990, thousands of companies have participated in the Initiative. This is your firm's chance to receive the **recognition** it deserves.



# History... Small Business – the Fabric of America's Economy.

Small businesses have long provided America with jobs, innovation, prosperity and economic vitality. Today, small businesses face unprecedented challenges. Fierce competition, rapidly changing technology, capital constraints, employee retention, natural disasters and economic downturns are just a few of the many problems that can force a small firm out of business. The perseverance of the small business owner is the model by which business success is measured.

To meet these daunting challenges, small businesses must have access to proven strategies, pragmatic ideas and essential resources that will assist them in competing... and succeeding. This is why MassMutual – The Blue Chip Company, in partnership with the U.S. Chamber of Commerce, *Nation'sBusiness* magazine and *First Business*, the daily national television newsprogram, offers the Blue Chip Enterprise Initiative®.

The program was established in 1990 by The Connecticut Mutual Life Insurance Company. It recognizes successful small businesses – the Blue Chip companies of today – and serves as a valuable resource for thousands of business owners. Through the Initiative, small firms tell their stories of success in an increasingly rigorous business climate.

The Initiative allows business owners to reflect on their accomplishments and learn from the case histories of other successful businesses. It also provides important recognition and networking opportunities at local, regional and national levels.



# Opportunity



The Blue Chip Enterprise Initiative® is a national program that invites business owners to share their challenges, opportunities and ideas for success.

From the applications received, an independent panel of judges selects companies from each state, the District of Columbia and Puerto Rico as Blue Chip Enterprise Initiative® honorees. These Blue Chip companies will receive the following acknowledgments of their achievement:

- ★ A prestigious nationally recognized award
- ★ Extensive publicity, including coverage in *Nation's Business* magazine
- ★ A one-year membership in the U.S. Chamber of Commerce, including a one-year subscription to *Nation's Business* magazine
- ★ Blue Chip Enterprise Initiative® logo to use in advertising and signage
- ★ A case-history book, *Insights and Inspirations: How Businesses Succeed*, chronicles the descriptive accounts of the exemplary use of resources and strategies employed by the Blue Chip Enterprise Initiative® honorees
- ★ Selected honorees will be profiled on *First Business*, a daily national television newsprogram that highlights small business issues
- ★ A three-volume video library highlighting the *First Business* BCEI broadcasts
- ★ Community recognition and networking opportunities
- ★ Four Blue Chip Enterprise Initiative® national honorees will be chosen and will each receive an all-expense paid trip for two to Washington, D.C., to be recognized at the U.S. Chamber of Commerce's Annual Meeting

We invite you to complete the Blue Chip Enterprise Initiative® application.

Photo: Rocky Mountains, Trout Creek, Colorado, U.S.A.



# The Blue Chip Enterprise Initiative® Application

## STEP 1: COMPANY PROFILE

Name of Owner

Title

Company

Address

City

State

Zip

Business Telephone

Business Fax

Alternate Contact Name

Title

Annual Sales

Number of Employees

Year Established

Source of Application: ☐ Nation'sBusiness ☐ First Business ☐ MassMutual Agent (Agent's Name) \_\_\_\_\_

☐ Business Colleague ☐ Chamber of Commerce (Location) \_\_\_\_\_ ☐ Other \_\_\_\_\_

Owner's Signature

Date

### Type of Business (Check all that apply)

- |  |   |
|--|---|
| <input type="checkbox"/> Agriculture                       | <input type="checkbox"/> Retail Trade                     |
| <input type="checkbox"/> Construction                      | <input type="checkbox"/> Services                         |
| <input type="checkbox"/> Finance/Insurance/<br>Real Estate | <input type="checkbox"/> Transportation/<br>Communication |
| <input type="checkbox"/> Franchise                         | <input type="checkbox"/> Manufacturing                    |
| <input type="checkbox"/> Other (describe): _____           |   |

- |  |  |
|--|--|
| <input type="checkbox"/> Publicly Traded | <input type="checkbox"/> Family Business |
| <input type="checkbox"/> Privately Held  |  |

Brief Description of Products/Services: \_\_\_\_\_

## STEP 2: THE STORY OF YOUR CHALLENGES (500 words or less)

Please describe the major challenges you faced or the opportunities you have created. These may include loss of a major client, rapid growth, employee turnover, product differentiation, unforeseen industry changes, natural disasters, etc.

## STEP 3: THE SUCCESSFUL SOLUTION (500 words or less)

Tell us how you made your business succeed. Please describe the resources, strategies and tactics you used to overcome your business challenge(s). We are looking for insights into the management of your company's resources such as quality assurance, marketing, human resources, community relations, financial management, technology, etc. Clearly detail how implementing your solutions significantly improved your company's performance. Give specific examples where appropriate.

## STEP 4: PLEASE SEND THE COMPLETED APPLICATION AND ADDITIONAL PAGES TO:

Mail to: **MassMutual** ★ P.O. Box 2048 ★ Hartford, CT 06101 ★ Fax to: **1-860-987-2596**

**DEADLINE: 3<sup>RD</sup> FRIDAY IN OCTOBER** ★ For more information, call **1-800-FOR-BCEI**.

**Requirements:** The Blue Chip Enterprise Initiative® is open to any U.S. or Puerto Rican for-profit company that has been in continuous operation for at least three years and employs from 5 to 400 people. All applications require the signature of at least one of the participating company's principals. Judging is done by an independent panel of judges. Information submitted becomes the sole property of MassMutual.





# Real World Experiences from Real World Businesses

## It's great to be recognized...

*"From the time Computer Rescue Squad was selected as a National Blue Chip Enterprise Initiative recipient, we have been deluged with requests for interviews, presentations, pictures, and generally great publicity opportunities! Receiving this recognition has elevated my company to a new level, giving us credibility that only national status can confer. Frankly, it has been a ball."*

Carol P. Conway, President  
Computer Rescue Squad  
Cape Coral, FL

## Management leadership equals business turnaround...

*"As new owners of the company, we discovered that the head of accounting had disappeared with all of the company's financial records, leaving behind a corporate debt totaling \$4.5 million. To overcome this devastating loss, we directed management to implement a series of corrective measures: tight controls over purchasing, receiving and remittances, an extensive new product program, and an aggressive sales and promotion campaign. Today, Accutec is debt-free and enjoys an enviable reputation for producing innovative, American-made products."*

Jerry Hendelman, President and Hal Goldin, VP  
Accutec, Inc.  
The Finesse Product Line  
Wallington, NJ

## Christmas comes but once a year...

*"...but don't tell Wally Bronner. Starting in the basement of his parents' home, the 'world's largest Christmas store' now occupies a 45 acre site. Along the way, growing pains were minimized through the use of innovative solutions, including family involvement, facility expansion, updated computer systems, employee benefit plans, utilization of world markets and strategic planning. 'Our genuine efforts are to plan properly to avoid crash challenges that require crash solutions.'"*

Wallace J. Bronner, Originator and Manager  
Bronner's CHRISTmas Wonderland  
Frankenmuth, MI

## People can make business succeed...

*"I fired my accountant the other day. He told me we couldn't afford the kinds of benefits, vacation time and 401(k) I wanted to provide for my employees. I guess my former accountant just didn't understand that Howard Fabrication exists because of its employees. Sure, I took the financial risks, but they took the ride with me. Howard Fabrication is all of us. That's the reason we've succeeded."*

John R. Gill, President  
Howard Fabrication, Inc.  
Industry, CA

 **MassMutual**  
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 **FIRST  
BUSINESS**

**Nation's Business**  
The Small Business Adviser

Photo: Sierra Nevada, California, U.S.A.



## SMALL BUSINESS TECHNOLOGY

# High-Tech Marketing Hits The Target

*When used effectively, mapping software, business databases, and sales-force automation can help small firms increase sales.*

By Tim McCollum

**O**n weekends, Douglas Kelly, media director for Black Rock Golf Corp. in Englewood, Colo., often can be found on the golf course using his company's Killer Bee clubs to lower his handicap. During the week, Kelly has his eye on how far the Killer Bees can drive Black Rock's sales.

Using mapping software called BusinessMap, a program produced by Environmental Systems Research Institute Inc. (ESRI) of Redlands, Calif., Kelly can quickly plot the latest sales of the golf clubs by city, state, and region. The software-generated map on Kelly's computer screen shows him the markets in which the clubs are selling well. With a click of the computer mouse, the software lets him visualize actual and projected sales trends by location over time.

A couple more clicks give him an instant comparison of how the clubs sold before and after Killer Bee infomercials that appeared on cable and local television stations following golf-tournament telecasts. The two-year-old company has marketed its Killer Bee clubs—designed to increase the distance of a drive—primarily through an infomercial that appears on cable networks such as ESPN and The Golf Channel and on local television stations in more than 175 U.S. markets.

"This software tells me more than any amount of sales projections could," says Kelly, who enters the data based on the sales figures. "The great thing about it is I can map out where the customers live 24 hours after an infomercial runs."

Firms such as Black Rock are gathering tremendous amounts of information about

customers, markets, and industries by using an array of relatively inexpensive software and computerized databases. These resources can help entrepreneurs increase their effectiveness in targeting markets, cultivating leads, and closing sales.

The more a company knows about its geographic markets, its industry, the competition, and the needs and buying habits of its customers and prospects, the more precisely it can target marketing efforts to those most likely to buy the company's products or services.

## Gathering The Information

Whether it's called database marketing, smart marketing, or target selling, it boils down to using technology to deliver information that can boost sales.

This technology is "even more critical for

small businesses because they don't have the massive base of customers that they can lean on," says Tim Sullivan, vice president of sales for Target Market Systems Inc., an Atlanta firm that provides sales training and consulting services. "They always have to go after new business."

Martha Rogers, co-author of *Enterprise One to One* and *The One to One Future* (both from Currency/Doubleday, \$24.95 each), says information technologies such as business and customer databases and sales-force-automation systems (for streamlining sales processes and paperwork) enable small firms to develop longer and more-profitable relationships with customers.

"We have the technology to build individual relationships," says Rogers. "We learn who you are, we make what you want, and we remember what we've done



PHOTO: GARY STAVEN

A software program called BusinessMap enables Douglas Kelly of Black Rock Golf Corp. to plot by location the sales of his firm's Killer Bee clubs.



## SMALL BUSINESS TECHNOLOGY

for you. ... It's easier for you to come to us next time than to go to someone else."

The results can be impressive. In a recent survey by *Sales & Marketing Management* magazine, 85 percent of companies that responded said that technology was making their sales forces more efficient, and 62 percent said it was helping to increase sales.

One reason for this efficiency is that technologies such as database mapping, also called geographical information systems (GIS), allow companies to respond quickly to changing market conditions and customer demand.

Database mapping allows firms such as Black Rock to superimpose data—sales totals in specific locations, for example—onto electronic maps culled from satellite data and geographic surveys.

Kelly uses the maps he generates with the \$99.95 BusinessMap software to make decisions on buying TV time. In addition to sales figures, the maps tell him when people in a particular market are most likely to buy golf equipment. The maps also show him how many orders the company is generating through retail outlets.

#### Tapping Wellsprings Of Data

Although database mapping gives companies a visual picture of their markets, some small businesses want even more information to help identify fertile markets. Database-service providers such as American Business Information Inc. (ABI) in Omaha, Neb., and Dun & Bradstreet Information Services (DBIS) in Murray Hill, N.J., offer such information.

These businesses have accumulated vast amounts of data on companies throughout the United States and Canada. Customers can buy the records on firms in specific locations or industries or of certain sizes or sales volumes. The databases make it easy to generate lists of potential customers for direct-mail or telemarketing campaigns.

Another market-research option for small companies is new software that allows employees to search the databases from their computer desktops. One firm taking advantage of this capability is Private Business Inc., a software developer in Brentwood, Tenn. John Dodd, vice president and direct-marketing manager for the company, depends on direct-mail campaigns to generate leads for the field sales force.

Private Business sells loan-management software, so Dodd is always seeking reliable information on financial institutions that have small-business customers. He tried using list vendors and database companies but wanted a quicker, more flexible, and less expensive way to locate potential purchasers.

Dodd believes he has found a solution in D&B MarketPlace, a business database

available on CD-ROM and compiled by iMarket Inc. in Waltham, Mass. (DBIS owns a small interest in iMarket.)

D&B MarketPlace contains the same basic data that DBIS provides through its proprietary database service, but it allows Dodd to conduct his own searches on his

using the software last year and started targeting his mailings more precisely as a result. And unlike the records he buys from list vendors and database companies, he has to pay for a particular record only once. Thus, he's able to reuse records for subsequent campaigns.



PHOTO: COAN LOTH—BLACK STAR

**Database-searching software** helps John Dodd, right, find potential purchasers for his firm's loan-management software; with him is Joseph H. Bowman IV, executive vice president of Franklin National Bank in Franklin, Tenn.

personal computer rather than having to order them by fax or through DBIS's on-line delivery system. The CD-ROM costs \$599, and users receive free updates quarterly.

Dodd says D&B MarketPlace has made it quicker and easier to generate targeted prospect lists. He can search a database of 10 million businesses by city, sales volume, ZIP code, and Standard Industry Classification (SIC) code (a U.S. Commerce Department classification of businesses by industry) and generate a list of prospects complete with addresses, phone numbers, contacts, and demographic information.

The program also allows him to analyze data and revise his search before he pays to license records. Each full record costs about 35 cents, which is recorded on a meter connected to his computer and is paid through a credit arrangement. "A small company isn't going to have the resources to buy the whole D&B file," Dodd says. "This way you can have the whole D&B database at your fingertips" for a fraction of the cost.

Dodd says his mailings are drawing a higher response rate since he started

#### Finding The Customers

Business leads for marketing campaigns can also be found by using programs such as Select Phone, \$99 from ProCD Inc. in Danvers, Mass., and PhoneDisc Powerfinder, \$99.95 from PhoneDisc Corp. in Bethesda, Md. These CD-ROMs contain business and residential telephone listings from across the United States. They make it easy to find customers, and both feature tools that allow companies to pinpoint the locations of customers, find information about neighboring businesses, and gather basic demographic information about the market.

Select Phone has proved particularly effective for Clarity Software Inc., a software-development firm in New Canaan, Conn. Clarity's president, Quentin Leo, uses Select Phone to target broadcasting and publishing firms that might be prospects for the company's sales-automation software.

The software lets him conduct quick searches of a particular city, state, or region based on SIC codes and gives him a complete listing of prospects and contact information. "I use Select Phone to find a



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200001



## SMALL BUSINESS TECHNOLOGY

universe for my software," Leo says. "Then I can look for prospects that I should focus on. It's a good prospecting tool."

Leo says he could use database services, list vendors, business directories, and even Internet sites to gather this information, but Select Phone saves him time and effort.

## Segmenting The List

The success of Private Business and Clarity in harnessing the competitive advantages of database marketing is significant because generating leads can be expensive. A direct-mail campaign, for instance, typically achieves only about a 2 percent response rate. However, Leonard Wanetik, executive vice president of AF-FINA Inc., a Troy, Mich., marketing-research and database company, says that "a well-defined offer to the right people can give you a very large response rate."

Wanetik says a highly segmented list should easily double the response rate and could generate up to a 30 percent response given the right conditions.

More important, adds Wanetik, a good customer database can lay the groundwork for sales by helping companies identify opportunities, respond to potential customers, and close deals.

Today's small firms need good customer data just to stay competitive, according to George Colombo, author of *Sales Force Automation* (McGraw-Hill, \$27.95). "In most organizations," he says, "salespeople spend an inordinate amount of time on administrative work like sales reports and paperwork. The point of technology is to get them out of the business of doing those things and get them back into the business of talking to customers."

Colombo urges companies to automate their sales forces by giving salespeople notebook PCs equipped with contact-management or sales-software systems. Such systems enable salespeople to enter into their computers basic contact information on prospects, then add records of each conversation with a customer that they can refer to when following up with calls or letters.

Sales-force-automation programs range in complexity from desktop contact managers that cost about \$200 to customized networked sales systems, which cost as much as \$1,500 per user for the software. When used effectively, such automation can increase the productivity of

even the smallest sales force.

Investment adviser Monty Montgomery of Montgomery & Associates in Tulsa, Okla., says he relies on his contact-management program, Act! from Symantec Corp. in Cupertino, Calif. Montgomery uses Act! to keep contact information and notes about investment preferences. He dutifully notes each conversation, charting the status of a potential sale and building his base of knowledge on each client or prospect. He can bring up a customer's data instantly whenever he makes or receives a call.

Montgomery says the software comes in handy when a hot investment opportunity arises. If a particular investment becomes a good buy or if it looks like its price could rise, Montgomery can search his database for people who have shown an interest in that investment option. "That's when it really becomes apparent how important the program is," says Montgomery. "That search might have taken me two or three days to go through all my client files. This takes a few minutes."

**The purpose of technology is to get salespeople "back into the business of talking to customers."**

—George Colombo,  
Author,  
*Sales Force Automation*

**A**lthough mapping software, business databases, and sales-force automation can help small businesses harness information to increase sales, the technologies alone are not the answer to sales growth, says author Rogers.

The technologies must be employed and managed effectively, she notes. Problems begin to occur, she says, when, for example, a marketing person in a company taps into the firm's database to put together a mailing list and someone in telemarketing uses the same database to collect names for a phone campaign. Customers and prospects can end up being bombarded by multiple sales campaigns.

A smarter approach, she says, is to use the technology to move beyond mass marketing to give customers more individual attention by identifying the best clients and learning to anticipate their needs.

That has been key to the success of small companies such as Internet bookstore Amazon.com, based in Seattle, and Streamline, a Boston company that delivers household products, says Rogers. Both companies are constantly looking for new ways to serve their customers.

"Your task is not to push stuff out the door," she says. "It's to get as great a share of a customer's business as you can." Savvy marketers and salespeople stand a better chance of achieving that goal if they use new software to their advantage.

## Making The Most Of Information

Some managers adopt database mapping, business-directory searching, sales-force automation, or other technology and end up disappointed when the expected revenue gains don't materialize.

Technology itself won't boost sales, say marketing experts. For sales to climb, information must be carefully integrated into a total marketing strategy.

Here are some tips from marketing experts on how to use information in constructing a strategy to boost sales:

- **Build a database—including names, addresses, and other pertinent information—of your company's customers and prospects. Increase the value of the database by carefully recording all company interactions with the customers and prospects.**

- **Determine the kinds of information your company needs about customers and prospects, and establish a plan for obtaining and using the data.**

- **Use demographic and geographic information to develop a profile of your customer base, and identify new markets with similar characteristics.**

- **Use your database to identify the interests and buying habits of your customers over time. Such information can help your company anticipate customer needs and suggest additional products and services that may interest them.**

- **Involve your sales staff in planning any sales-force automation. If salespeople don't think the automated system will benefit them, they won't use it.**

- **Learn to share information. For example, it might be helpful for certain information in your database to be shared by the accounting, customer-service, management, marketing, and sales staffs. Establish policies on how information will be distributed within your company and who will have access to which information.**

- **Use your database to personalize and coordinate sales campaigns such as direct mailings and telemarketing. Separate prospects from customers. This will ensure that existing customers won't be bombarded with introductory sales pitches.**

- **Make certain that salespeople have access to the most up-to-date customer information.**





## BENEFITS

# ESOPs' Appeal On The Increase

*Employee stock ownership plans are back—and stimulating productivity.*

By Steve Kaufman

**D**on Way didn't realize at the time that he was in the vanguard of an important movement to bolster the success of small businesses. It was nearly 22 years ago, and he was working for Thoits Insurance Service, a commercial-insurance firm in Palo Alto, Calif., when, as the firm's vice president, he spearheaded an effort to set up an employee stock ownership plan (ESOP) at the company.

Way now is the firm's chairman and CEO, and the ESOP has thrived.

Like most people who start an ESOP, Way initially was attracted by the tax breaks that federal laws accord to such plans. For example, a firm with an ESOP—which buys company stock on behalf of the employees—can borrow money through the ESOP for expansion or other purposes and repay the loan by making fully tax-deductible contributions to the ESOP. (In making loan repayments directly to a lender rather than through an ESOP, of course, only the interest portion of the repayment is tax-deductible.)

After establishing his firm's ESOP, however, Way discovered that it can increase productivity. Way says the fact that the firm has an ESOP has made it easier for him to recruit, retain, and motivate talented people. "Under an ESOP, you treat employees with the same respect you would accord a partner," he says. "Then they start behaving like owners. That's the real magic of an ESOP."

## A Renaissance At Small Firms

The number of ESOPs increased steadily during the 1980s, particularly after tax-law changes made them more attractive financially to business owners. Formations declined in the first half of the 1990s, however,

largely because of the recession and its aftermath. Now that the economy has revived, the number of ESOPs is on the rise again. According to the National Center for Employee Ownership in Oakland, Calif., about 10,000 companies have ESOPs today, up from 9,000 in 1990. And in just the past year or so, the net increase in ESOPs has reached about 600, or about three times the annual level of recent years.

"A renaissance is under way in the creation of ESOPs at small companies," says Michael Keeling, president of the ESOP Association in Washington, D.C.

Business-finance expert Jim Zukin agrees: "ESOPs have captured a second lease on life." Zukin is senior managing director of Houlihan, Lokey, Howard & Zukin, a Los Angeles investment-banking firm that specializes in ESOPs. The renewed ESOP activity stems not just from the economy's strength, he says, but also from small firms' realization that an ESOP can provide a competitive edge by encouraging productivity.

Profit sharing, of course, is an incentive, too, but a couple of extra checks in a good year can hardly match the effect of giving

employees a piece of the company, say those familiar with ESOPs.

"An ESOP creates a vision for every employee and gets everybody pulling in the same direction," says Joe Cabral, president and CEO of Chatsworth Products Inc., a Westlake Village, Calif., maker of support gear for computer networks. Chatsworth created an ESOP in June 1991. "Everybody wants the company to do the best it possibly can," says Cabral.

Says Christopher Mackin, president of Ownership Associates Inc., a Cambridge, Mass., employee-ownership consulting firm: "Increasingly, the success of companies relies on the success of its employees." Mackin, whose firm works with United Airlines and dozens of much smaller ESOP clients, says it's important to develop creative ways "to keep good people interested in the business longer-term."

## Tax-Free Growth

For long-term employees, the financial rewards of an ESOP can be considerable. As with other retirement plans, an individual's ESOP account grows tax-free until retirement. At that point, the employee



PHOTO: GILDA RUE SCOTT

**Tax breaks** prompted Don Way to start an employee stock ownership plan at his commercial-insurance firm, but he has since discovered there are other benefits.

Steve Kaufman is a free-lance writer in San Jose, Calif.



## BENEFITS

sells his or her shares in the ESOP back to the company. (Federal law requires an independent evaluation of an ESOP's stock every year.) The employee can roll the proceeds of the stock sale into another tax-sheltered investment, such as an individual retirement account.

The company stock that ESOPs purchase and then allocate to individual employees' accounts can be acquired in various ways. Under some plans, the employer contributes securities or cash every year to the ESOP so it can buy company stock. Most ESOPs, however, obtain bank loans to buy the stock, and the employer may use the proceeds of the stock purchase to expand the business or, in the case of a small company, to fund the owner's personal retirement nest egg.

In addition, ESOPs provide the principal business owner some important tax advantages—in addition to the ability to deduct the full payments on loans obtained through the ESOP.

An ESOP itself may also borrow money, typically from a bank, to buy the business owner's stake in the company. If, after buying stock from the owner, the ESOP owns at least 30 percent of the company, the owner may defer capital-gains taxes on the proceeds of the sale—provided the proceeds are invested in other securities such as stocks and bonds. No capital-gains tax is paid until those investments are sold.

#### Productivity Plus

Apart from tax advantages, the most impressive aspect of an ESOP is the potential for productivity gains. In a survey of 1,150 ESOP companies in 1995 by the ESOP Association, 68 percent of the respondents said their financial figures improved the year after they instituted an ESOP and 60 percent said productivity improved.

It was the formation of an ESOP that ultimately saved Quincy Castings, according to the firm's leaders. The Quincy, Ohio, firm was losing money and was about to be closed or sold in 1990, when it was a subsidiary of Warren Tool Co. Quincy Castings concluded that an ESOP would stimulate the productivity gains necessary to keep the company alive.

Top managers obtained an \$800,000 bank loan to initiate the ESOP. Then they rewrote all the company's operating procedures and placed employees on several hard-charging quality-improvement teams. In mid-1993, when demand finally began picking up, "we were ready to roll," says Gary Bardon, Quincy's president. Sales jumped to \$6.5 million in 1994 from \$5.2 million the previous year, and profits rose to \$450,000 from \$150,000.

Bardon says that sales have remained strong and that there would have been no turnaround without an ESOP. "Our people

simply would not have appreciated the depths of our financial difficulties and the need to produce a much higher-quality product faster and at a more competitive price," he says. "That required people who were willing to work smarter and bring the best possible ideas to the table."

#### Not Always The Best Route

Although ESOPs make sense for many small businesses, they clearly are not for every company. Setting up an ESOP is complicated and typically costs \$20,000 to \$50,000. In addition, the annual stock evaluation costs about \$10,000, and most companies pay an outside administrator to handle all their ESOP paperwork.

Experts such as Corey Rosen, executive

owners come to expect that. If they are shunted aside, they become resentful, Rosen says, "and management finds that it has created a monster."

From the employee's perspective, too, an ESOP poses risks. Chief among them is that most of their retirement nest egg is invested in the stock of one small company. If the company goes bankrupt, the employee's ESOP stock holdings may be worthless. Of the roughly 10,000 ESOPs created over the past 20 years, however, only 1 percent have gone under financially along with their parent companies.

#### From The Beginning

The first ESOP was created in 1957, but the concept didn't catch on widely until

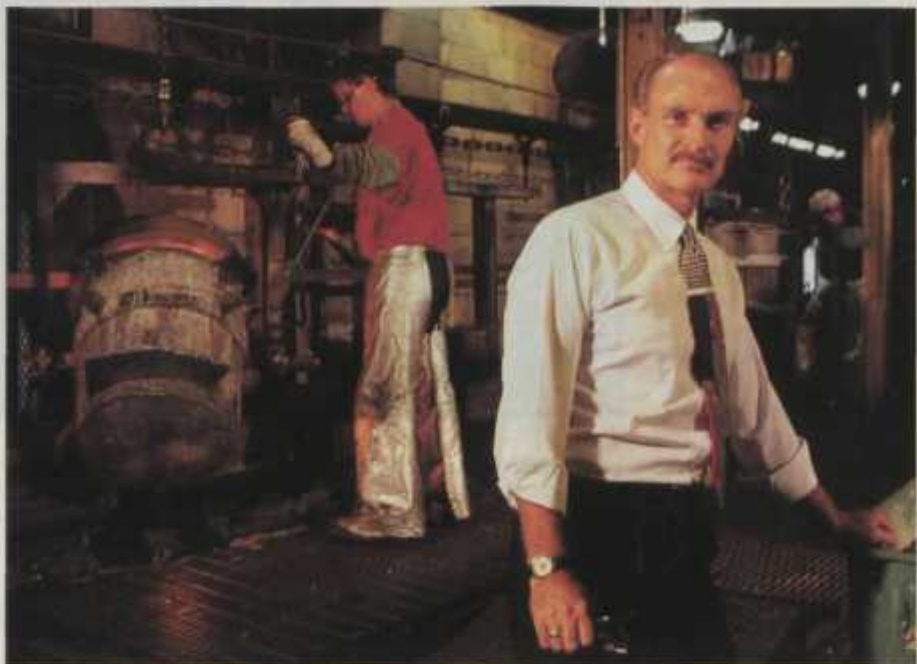


PHOTO: SUN CALLAWAY

**The formation of an ESOP helped turn around Quincy Castings by boosting performance, says Gary Bardon, the firm's president.**

director of the National Center for Employee Ownership, say an ESOP can be prohibitively costly for small companies, for those with high employee turnover such as fast-food outlets and gas stations, or for companies that rely heavily on contract workers—such as real-estate agencies—who would be barred from participating.

ESOPs may also pose too many problems for businesses with chronically uncertain cash flow. An ESOP is contractually obliged to repurchase stock from employees who leave the company or retire, and over time that obligation can cause big headaches if the money isn't there.

In addition, an ESOP can be a catastrophe if a company creates one without a commitment to employee participation in management of the company. Employee

nearly 20 years later, after their characteristics were spelled out as an exception to general retirement-plan rules by the Employee Retirement Income Security Act (ERISA) of 1974.

Over the next dozen years, additional laws were passed to encourage the formation of ESOPs. Legislation enacted last year permits S corporations to form ESOPs, but the tax advantages are not as attractive for S corporations as for C corporations. Few S-corporation owners are expected to be interested.

C corporations, however, seem likely to continue forming ESOPs at a brisk rate, according to experts. Nothing, they maintain, motivates employees more than giving them a tangible stake in their company's future.



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## FINANCE

# Vendors Can Pave The Way To Growth

By Susan Hodges

**W**hen Jerry Turner and Michael Clarke formed Emerald Asphalt & Concrete Inc. in Santa Ana, Calif., in 1988, they owned nothing but a couple of used trucks and a fistful of obligations. Both were married, with families to support and rents to pay, and neither had established credit.

Nine years later, Emerald Asphalt & Concrete is a 25-employee company that does business in every mainland state west of the Rockies and rakes in \$2.5 million in annual sales.

What gave the partners their big break? "Vendor financing," says Turner, who is vice president (Clarke is treasurer; the company has no president). "We couldn't have been successful without it."

Emerald Asphalt is one of thousands of small businesses that receive financial assistance directly or indirectly from the firms that provide them with equipment, supplies, or services. Lacking sufficient cash or credit to make outright purchases, these small companies are financing everything from dump trucks to desktop computers to data communications—at the invitation of the vendor.

Typically, businesses use the financed items to earn money to make the monthly payments. If financing takes the form of a loan, customers own the equipment upon payment of the last installment. If the program is a lease, customers return the equipment to the vendor at the end of the lease, or, more typically, they buy the items for an amount set in the contract.

"Vendor financing is a win-win solution," says Julia Pierce, who financed several deals for Emerald when she was vice president of Pierce Capital, a small, family-owned finance company based in San Luis Obispo, Calif. "The business gets the equipment it needs to grow, the vendor gets the sale, and the finance company gets a new customer. Everyone benefits."

## "We Had Nothing To Lose"

Turner and Clarke met in 1987 while working for another paving company, which fell behind on its payroll. "We

weren't getting paid," recalls Turner, "so we decided to form our own company. We figured we had nothing to lose."

The two began by soliciting work in Santa Ana. Each time they won a job, they went to the local rental yard to get the needed equipment. "We didn't know any other way to do it," says Clarke. "We couldn't get credit to buy our own machinery."

Each week Turner and Clarke rented dump trucks, paving machines, and asphalt rollers for an average of \$600 apiece. Rental fees were paid from the money they made doing jobs. But the machines often broke down, so the partners frequently had to stop work until the rental company could send a mechanic. "People who rent don't take good care of equipment," Clarke explains, "so it's usually not in very good shape."

Turner's father-in-law contributed \$25,000 to become a 20 percent owner of the company. Clarke says it seemed like a lot of money at the time. But the sum was quickly spent on tools, office supplies and rent, and payroll for up to 15 temporary employees a week.

Emerald struggled through its first year and earned about \$400,000, which "is not much" for a paving business, says Clarke.

The partners then decided to try to buy a used dump truck. They went to a dealership that advertised vendor financing and applied for a loan for the truck. But because Emerald was a start-up company, the dealership would not approve the loan. In an effort to save the sale, the dealer referred Turner and Clarke to Pierce Capital.

Julia Pierce, who was working in Pierce Capital's branch office in Santa Ana, studied Emerald's financial situation and did not like what she saw. Emerald was a new company with no assets, and it was trying to buy a used vehicle. Against all logic, she

*When a supplier agrees to extend credit or to help you get it, everyone can win.*



decided to go forward with the deal.

"Pierce Capital was trying to establish a solid referral relationship with the truck dealership," says Pierce, "but I also knew Jerry and Michael were going to be successful. You could see it in their enthusiasm." Pierce Capital stepped into the vendor's shoes to finance the sale and took the title on Turner's sport-utility vehicle as collateral.

## Keeping Accounts Current

Pierce financed the dump truck with a five-year, \$480-a-month lease that offered a \$1 buyout at the end of the lease term. The required down payment was one month's payment plus taxes and vehicle registration. Had Emerald been approved for a conventional loan, Turner and Clarke would have had to put down 10 percent, or nearly \$3,000. Says Clarke, "With the money we saved, we had enough in the bank to keep our accounts current."

A year later, Turner and Clarke returned to Pierce Capital to finance more equipment. By then they had formed a relation-

*This story is part of a continuing series on ways that small companies can locate the financing they need to run their businesses.*



ship with independent salesman Jack Clymer, who was soliciting commercial paving jobs throughout Southern California and Nevada. Within a few months, Clymer secured a contract for Emerald to do all the paving for a major hotel chain, and Turner and Clarke knew they were primed for serious growth.



Vendor financing smoothed the road to success for Michael Clarke, left, and Jerry Turner, right, of Emerald Asphalt & Concrete; salesman Jack Clymer helped them secure a big contract.

As the company grew, Emerald continued to finance heavy equipment through Pierce Capital; at one point Emerald had nine machines on lease. "Julia would fill out the paperwork, and we'd take it to various dealers," says Turner. "It was about that simple."

Pierce Capital has financed more than a dozen of Emerald's major purchases. Julia Pierce left her father's firm in 1994 to broaden her knowledge of the finance market. She is now a senior account manager for GTE Capital, a major vendor-financing company in Westlake Village, Calif.

GTE is among hundreds of large manufacturers—including AT&T, Canon, John Deere, General Electric, IBM, and Hewlett-Packard—that operate their own financing divisions.

Many smaller manufacturers and suppliers offer vendor financing by forming alliances with independent companies such

as Pierce Capital. Financing may be supplied under the vendor's name or under the name of the finance company.

#### A Ticket To Growth

No matter how it's done, though, vendor financing is fast becoming one of the most popular methods used by small businesses to acquire things needed for growth. Statistics from the Equipment Leasing Association, based in Arlington, Va., show that vendor financing has leaped in the past five years from a seldom-used sales option to a \$13 billion-a-year industry.

Even so, Emerald Asphalt's experience with vendor financing is not typical. Usually, business owners select the equipment or supplies they need and then apply for financing through a vendor that offers such arrangements. Some businesses work in reverse, first locating a vendor with financing and then selecting equipment from that vendor. Most vendors draw up the papers in-house, even though financing is a transaction separate from the lease or purchase of the equipment and may be handled by an outside company.

Another form of vendor financing is called cooperative, or reciprocal, advertising. Companies whose products or supplies you use agree to share your cost of advertising—as long as you mention their products in the ads. This practice is prevalent among franchisors, retailers, manufacturers, and insurance companies.

If you need financing for any type of equipment or supplies, Pierce suggests that you ask your vendors first. "They may be willing to work an arrangement with you" to keep you as a customer, she says.

If you don't already have vendor relationships, decide what you need, then shop around for a vendor. Industry trade associations usually can tell you which manufacturers and dealers offer financing.

Then propose a plan. "Explain why you need the financing and how you'll make the money to pay it back," says Pierce. Before you sign on the dotted line, however, research the vendor to ensure that it will be around long enough to deliver the equipment and maintain it. Find out how long the vendor has been in business, and obtain any reports on the company that are available. Also call the local Better Business Bureau and the nearest chamber

of commerce to ask about the vendor's reputation. "Vendor stability is the biggest concern small businesses have," says Pierce. "You want to know the repair parts will be available when you need them."

Next, negotiate an agreement with the best terms you can get. "The key is to pay something in a timely way...while spreading the balance over an agreed-on period," says Peter Richman, author of *The Insider's Guide to Growing a Small Business* (Macmillan Spectrum, \$19.95).

As with any legal document, read the contract carefully and ask questions about anything you don't understand. If you're not satisfied with the answers, have the contract read by an attorney. Once you sign, Richman advises, "make those payments religiously." And open your doors to new, vendor-financed growth.

Susan Hodges is a free-lance writer in Takoma Park, Md.

## Resources

Vendor financing can be obtained through companies of all sizes—from small suppliers to large corporations. The firms listed below are finance companies owned by major manufacturers. The trade associations listed here can provide information about vendor financing and help you find a vendor that meets your needs.

■ AT&T Capital Corp. (most types of equipment)  
(201) 397-3000; [www.attcapital.com](http://www.attcapital.com)

■ Canon Financial Services, Inc. (office equipment)  
1-800-220-0200; [www.cfs.canon.com](http://www.cfs.canon.com)

■ The Computer Leasing and Remarketing Association  
(202) 429-5150; [www.crla.org](http://www.crla.org)

■ The Equipment Leasing Association (all types of equipment)  
(703) 527-8655; [www.elaonline.com](http://www.elaonline.com)

■ GE Capital (all types of equipment)  
1-800-553-7287; [www.ge.com](http://www.ge.com)

■ Hewlett-Packard (high-tech equipment)  
(415) 960-5680

■ IBM Credit Corp. (IBM products and services)  
1-800-678-6900; [www.financing.ibm.com](http://www.financing.ibm.com)

■ IKON Capital (office products)  
(912) 471-2300; [www.ikon.com](http://www.ikon.com)

■ John Deere Credit/Leasing (agricultural and construction equipment)  
(515) 224-2800; [www.deere.com](http://www.deere.com)

■ Oracle Credit Corp. (computers and software)  
(415) 506-7000; [www.oracle.com](http://www.oracle.com)



## CONGRESS

# A New Blend Of Experience

By David Warner



PHOTO: JACOB RENDALL

As president of a manufacturing firm, Utah Republican Rep. Merrill Cook experienced the "roastful way that government regulates" business.

**T**he nearly two dozen small-business people elected to Congress for the first time in November are expected to play a crucial role in the shaping of legislation important to business in the coming months.

The pace of action on such legislation, including the federal budget for fiscal 1998, is beginning to accelerate after the slow pace of the first four months of this year.

The new small-business-oriented lawmakers, like the scores of business people voted into office in the previous three elections, bring the experience of running a company to an institution that many believe was, until recently, sorely lacking in business sense.

Members of the House and Senate who have business backgrounds now number more than 200.

In addition, many of the newest members of Congress—including a number of those with business backgrounds—have another type of experience that some congressional observers say was largely missing from the two previous freshman classes: legislative service.

"The freshman class of the 105th Congress has a unique blend of business and legislative experience," says Lonnie Taylor, vice president of congressional affairs for the U.S. Chamber of Commerce. "The new members know about the effects on business of bills that Congress passes and they know how the legislative process works. That will serve them well as Congress debates such important business issues as balancing the budget, reforming the regulatory process, and changing the tax system."

In interviews with *Nation's Business* after they were sworn in to office, a number of the new lawmakers discussed those im-

*Many freshmen in the 105th Congress bring a business perspective to the lawmaking process.*

portant business issues along with some of their other top concerns.

## Merrill Cook, Utah, 2nd District

"As a businessman, I'm concerned about overregulation," says Cook. "People want safety, they want clean air, they want clean water. They're just very suspicious of the federal hand in all of this."

Cook, a Republican who won the open House seat that includes Salt Lake City and its suburbs, knows about the "federal hand" in business. As president of Cook Slurry Co., a firm south of Salt Lake City that manufactures explosive materials for use in mining, he had dealings with the Occupational Safety and Health Administration and the Environmental Protection Agency.

"I've been in the explosives-manufacturing business, and I understand the need for safety and for regulations," Cook says. "But the overreach and wasteful way that government regulates... I really have problems with some of the specific methods" of regulating.

Cook—whose committee assignments are Banking and Financial Services; Science; and Transportation and Infrastructure—would like to see more of the regulatory process, including rule making



PHOTO: LAURENCE L. LEVIN

Education is a key to economic success, says Democratic Rep. Bob Etheridge of North Carolina, who owned a business and served as state superintendent of public instruction.



and enforcement, turned over to the states, where rule making is more cost-effective, he says.

As with most of his colleagues, Cook's top priority is balancing the federal budget. But reforming the tax code is also important, he says. "I think we need to move toward a simplified, one-tax-rate system. I'm very much against the current complex system."

#### Kay Granger, Texas, 12th District

Along with many of her colleagues, Granger, a Republican from the district that includes Fort Worth, says reforming the regulatory process is a top concern. Regulation, she says, "is a huge issue in keeping small business from hiring more people, in adding to the costs of products, [and] in the cost of research and development for new products."

Federal rules were not particularly problematic for Granger in running her small company, Kay Granger Insurance in Fort Worth, but the small-business

Granger says. "It's the arrogance of Washington: 'Because we're in Washington, D.C., we know better what's good for you.' She's in Congress to change that attitude, she says.

Granger is one of just six freshmen serving on the House Budget Committee. She has been working with the panel's chairman, Rep. John R. Kasich, R-Ohio, to help formulate a balanced-budget plan.

She also serves on the Oversight and the Transportation and Infrastructure committees, and she regards balancing the budget as vitally important. "God help us if we don't balance the budget," she says. "It's truly our future, and it's our kids' future and our businesses' future."

#### Bob Etheridge, North Carolina, 2nd District

While balancing the budget is certainly a top priority for Etheridge, a Democratic representative from central counties between Rocky Mount and Fayetteville, he maintains there's another key to America's economic success: education.

Etheridge, who was North Carolina's superintendent of public instruction from 1988 to 1996, will make education one of his top concerns.

"I believe," Etheridge says, "whether you're in a small business, in a large business, or whether you're in the public sector, education is the one thing that levels the playing field."

"The challenge small-business people face, because they're so busy and moving so fast, is their ability... to train their employees and upgrade [workers'] skills."

Etheridge, who is on the Agriculture and Science committees,

says the federal government must be involved in education and training to help the country maintain its ability to compete in a global economy, but he believes that business needs to play a role in the education process, too.

Like many of his freshman colleagues,



PHOTO: LAURENCE L. LEVIN

**Former supermarket owner John E. Peterson, a House Republican from Pennsylvania, says he will press for "fairer tax policies that reward investment."**

Etheridge has seen government from inside as well as outside. He ran a small hardware and building-supply company for 20 years, owned a small radio station, and served on a local chamber of commerce. He also was a Hartnett County commissioner and a representative in the state General Assembly.

"I come from a little bit different mix than most small-business men," says Etheridge, "because I have had a chance to see [government] from both sides."

#### John E. Peterson, Pennsylvania, 5th District

"The first priority of government," says Peterson, "is to make sure [it] doesn't do anything that makes business people less competitive."

Until recently, says Peterson, a Republican whose district covers north-central Pennsylvania, Congress has not adhered to that principle. It has tended to overregulate and overtax, and that hurts competition, he says.

While large companies can deal with government rules and tax policies and still compete, Peterson says, the success of the country depends on "the ability for someone to start small. That's where we're in trouble in America. It's much harder today to start small."

Peterson has firsthand knowledge of starting a small business. His father mortgaged the family farm so Peterson could start a small, independent supermarket in Pleasantville in northwestern Pennsylvania. Peterson says that in his 26 years of running the store, he learned about the competitive factors of business and how government can adversely affect small firms.

"I'll be a bureaucracy-fighter, helping people deal with government," says Peterson. "I'll be fighting for fairer tax



PHOTO: K. JOHN H. FULTON JR.

**Texas Republican Rep. Kay Granger got a taste of the federal bureaucracy while serving five years as mayor of Fort Worth.**

people she met during the election campaign let her know the costs of complying with government regulations, and she got a taste of Washington bureaucracy during her five-year stint as mayor of Fort Worth.

"I saw what people talk about,"



## CONGRESS

policies that reward investment, encourage investment, and that don't discourage growth."

Peterson, who serves on the House Education and the Workforce Committee, says he also will be a champion for education and training, particularly for technical skills. "We are not staged well to compete in the world with our technical training," he says. "I think that [training] is something that government ought to be involved in."

#### Michael B. Enzi, Wyoming, Senate

Tax simplification, regulatory reform, and balancing the budget are top concerns of Enzi, Wyoming's freshman senator. His committee assignments include Labor and Human Resources; Banking; and Small Business.

Regulations, in particular, weigh on small firms, says the lawmaker, a Republican who started his first N-Z Shoe Store in Gillette, Wyo., 28 years ago. "A lot of times, Congress just doesn't think in terms of small business" when it approves legislation, he says. "I'd like to see Congress take off some of the [laws and rules] that impede small business."

One of the laws Enzi says he'll target is the estate tax. Currently, tax rates of 37 to 55 percent are levied by bracket on the value of an estate above \$600,000.

"We've got to do something to eliminate the estate tax on small businesses and farms and ranches," says Enzi. "A lot of times, if you have to sell off inventory to pay the [estate] tax, you don't have enough inventory left to have a viable business."

Enzi says he was prompted to run for Congress because in his 10 years in the

Wyoming Legislature he often found that changes he advocated in state policies or programs could not be made because of a federal law or regulation.

Nonetheless, he says, "I was encouraged that I was able to make a difference in a number of different areas in the state Legislature, and I thought that I could bring some of that experience and make a difference here for small business."

#### F. Allen Boyd Jr., Florida, 2nd District

"Having signed the front of a paycheck rather than just the back of one brings a different perspective to what's going on in the world," says Boyd, a fifth-generation farmer from Monticello, Fla.

And it's from that point of view—as a small-business owner—that he will urge his colleagues in the 105th Congress to balance the federal budget, he says.

"The best thing that we can do to advance our nation economically, militarily, and politically is to put our fiscal house in order," says Boyd, who served eight years in the Florida Legislature.

One of the conservative House Democrats known as the Blue Dogs, Boyd is a co-sponsor of the proposed balanced-budget amendment introduced by Texas Democratic Rep. Charles W. Stenholm. "For 27 consecutive years we've had a deficit," Boyd says. "It's very difficult for me to understand how members of Congress can make an argument that it's OK to continue to do that."

Boyd, who serves on the National Security and Small Business committees, says that everything the federal government does—every policy and program—must be put on the table and examined when the budget is considered.

And he knows there might be some tough choices to make when hammering out a budget deal—officials of organized labor have already visited Boyd to push their agenda on several budget-related issues.

But, he says, those who don't want to



Florida farmer and conservative Democratic Rep. F. Allen Boyd Jr., with his wife, Cissy: "The best thing that we can do" for the country "is to put our fiscal house in order."

touch various federal programs, such as Social Security, Medicare, and education, "forget that the dollars to provide those things come from economic activity out of the business community. If you're going to bash the business community and try to make it weak with governmental policies, then you're not getting anywhere."

**T**he 1994 freshman class, the so-called revolutionaries, came to Congress with pro-business, pro-economic-growth ideas and a get-Washington-off-our-backs mentality, but they tried to do too much too fast, say some critics.

Members of the class of '96 have the same ideas and tenacity, and they have the legislative savvy that may produce greater results, says the Chamber's Taylor.

Says freshman Rep. Peterson, who served in the Pennsylvania General Assembly for 20 years: "The majority of Americans want a less-intrusive, less-controlling federal government. We have to thoughtfully convince them that our track is going to get us there. And those who are our most impassioned leaders have to be patient."



Estate-tax reform is a priority for GOP Sen. Michael B. Enzi, who owned shoe stores in Wyoming.



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# Getting To Sleep Away From Home

By Steve Bates

*These tips from veteran travelers can help you stay sharp for business decisions after a wearying trip.*

**B**usinessman Jim DeFrancia logs more than 150,000 miles a year, primarily flying coast to coast. Years ago, as a novice business traveler, he would just be getting adjusted to West Coast time on the third or fourth day of a trip when it would be time to head back to the East Coast.

Like many business people who spend hundreds of days traveling each year, DeFrancia found that getting rest on the road can be hard work.

In recent years, he has cut down on rich, late-night meals and after-dinner drinks. He has squeezed some exercise time into his tight travel schedule—"enough to burn off the tension." He has resisted scheduling late meetings on the West Coast and early-morning appointments in the East. All in an effort to avoid being sleepless in Seattle or Schenectady.

When jetting cross-continent, "I try to keep my body clock in Coffeyville, Kansas," jokes DeFrancia, chairman of Lowe Enterprises, a real-estate-development firm in Sterling, Va. Splitting the difference in the time zones has minimized the ravages of jet lag, he says, adding, "Being a successful traveler is an acquired skill."

There is evidence that American travelers could use some help developing that skill. A recent survey by Hilton Hotels Corp. in conjunction with the nonprofit National Sleep Foundation, based in Washington, D.C., found that business people readily admit to eating too much, eating the wrong things at the wrong times, draining too many wineglasses and coffee cups, and passing many a restless night when they are out of town on business. (See "Habits To Avoid," on Page 53.)

TRAVEL TIME

For many road warriors, the cost is more than just bags under the eyes. Tired workers have trouble concentrating on their tasks and getting along with others. They

a hundred miles a day, staying up too late while being entertained by business associates, adjusting to unfamiliar surroundings, and other routine pitfalls of the business world cut into sleep time. It adds up to billions of dollars in lost productivity each year, says Goldberg.



Longer leg rests are among the features of United Airlines' new Connoisseur Class seats. In addition, the seats gently massage the lower back to indulge harried travelers.

make poor decisions and are more likely to have auto accidents than rested employees, says Joan Goldberg, communications director of the sleep foundation.

Jet lag—that out-of-sync feeling that strikes many people who fly thousands of miles east or west in a short time—is the most notorious source of travel-related fatigue. (See "Shedding Light On Jet Lag," on Page 54.) But it's not the only cause of tossing and turning for travelers.

"You don't have to cross time zones to experience that," says Goldberg. Driving just

## Changing Habits

"Many business travelers remain set in their ways," says Dr. Thomas Roth, chief of the Division of Sleep Medicine at Henry Ford Hospital in Detroit. Getting rest on the road requires "breaking old travel habits and establishing new ones that are more conducive to minimizing sleep difficulties," he says.

As global commerce—and the demands of travel—increase, that old staple of counting sheep often isn't enough anymore. Just trying to figure out whether to



count the clones in addition to the original sheep is enough to give some people trouble sleeping.

The National Sleep Foundation reports that worrying about getting enough sleep is among the leading causes of temporary insomnia for business people who are away from home. Dubbed the "on-call effect," it's that nagging concern that a phone call or other annoying noise might awaken you.

Yet there are some relatively simple techniques that travelers can experiment with to reduce stress and get rest, whether the job takes them across a state or around the globe, according to sleep researchers and veteran business travelers. Their suggestions:



**There's the rub:** Massages are free on most transatlantic flights for Virgin Atlantic's first-class passengers.

#### **Make the best of long hours on airplanes.**

If you or your business can afford a first-class ticket or one of the deluxe business-class seats that many airlines feature, you will likely reach your destination in much better shape.

But even if you fly coach, you can stretch. Tensing and then relaxing muscles progressively from head to toe works wonders for some travelers. Others endeavor to turn off their internal dialogue—that little voice asking: "Did I bring everything I need?" and "Will my presentation go OK?"—through quiet meditation. A lucky few travelers have developed the skill of starting a nap before the plane's wheels are up.

#### **Make your hotel room a quiet, calm place.**

When you arrive at a hotel, try to get a room far from obvious noise sources, such as ice machines and elevators. Check the drapes to make sure no light pours into the room; see if the pillows and mattress are acceptable; and put away the work a few hours before bedtime.

Just because modern technology has provided you with a way to get electronic-mail and voice-mail messages in your room doesn't mean you have to be checking them at midnight.

#### **Don't go overboard on food and drink.**

Your expense account might permit it, but a large order of prime rib, a rich dessert, and a pricey wine late in the evening won't help you sleep. Try to keep regular mealtimes, even if you have

crossed several time zones. And remember that there was a reason why your mother urged you to eat vegetables and fruit: You need them.

#### **Try to exercise, relax, and have a little fun.**

A light or moderate workout is much better than none, researchers say. But

## **Habits To Avoid**

Business travelers often develop bad habits that make it harder to get a decent night's sleep, according to results of a survey conducted by Hilton Hotels Corp. and the nonprofit National Sleep Foundation. The survey of more than 500 business travelers found:

- One-fourth of the business people said they drink more alcohol on the road than at home.

- Nearly one-fourth said they drink more coffee when traveling.

- Half of those surveyed eat more, and eat later in the evening, on business trips.

- Only 15 percent of business travelers alter their eating and sleeping habits to be in sync with their destination city when crossing time zones.

- Less than 1 percent of business travelers get out in sunlight to help adjust their biological clocks to time-zone changes.

don't overdo it late at night; it will take your body some time to wind down.

If you're going to a city you've never seen, give yourself the luxury of time to explore it. If you're familiar with your destination, look forward to returning to that used-book store or out-of-the-way park you enjoyed previously, as a reward for toughing out the journey.

#### **Flights Of Fancy**

Adding a little fun to the trip can work wonders. Just ask passengers in Virgin Atlantic Airways' first-class seats, who are treated to free massages—with an option for aromatherapy—on most of the airline's transatlantic flights and at its lounge in London's Heathrow Airport.

Mike Pingrey, general manager of the ACT travel

agency in Washington, tried the service on a recent flight to London. "It was sort of a 'why not?' thing. It helped me relax a lot more," which made the flight seem shorter and reduced the stress of jet lag upon arrival. "About everybody in first class was taking advantage of it," recalls Pingrey, who adds, "You obviously wouldn't fly the plane just to get a massage."

Started seven years ago, the airline's trademark Virgin Touch service now employs a massage staff of about 100. Some passengers "were hesitant at first," recalls Jane Breeden, manager of beauty therapy for the airline. "Some thought it was going to be a gimmick. Now people queue up and argue over who's going to be first." As a bonus, passengers can have relaxing scented oils, such as lavender, applied to sensitive spots on their skin.

#### **Room To Relax**

Some airlines are pouring tens of millions of dollars into more-conventional comfort improvements, particularly seat design.

United Airlines has redesigned its business-class seats to give passengers more room and firmer support. The seats are 60 inches apart, measured from seat back to seat back—about twice the distance between coach seats on some airlines.

At the flip of a switch, the seat gently massages the lower back. Personal reading lights, tray tables high enough that you can cross your legs under them, and many other adjustable features are built in.

US Airways has announced plans to increase international business-class seat



## Shedding Light On Jet Lag

Though many Americans believe it to be a myth, jet lag is real, sleep researchers say. Rapid travel across time zones disrupts your basic circadian rhythm, potentially making you sleepy much of the day and wide awake at night.

In addition, it can make you disoriented and poorly coordinated, which could be hazardous to your health and to your business plans. But the effects can be reduced by certain techniques that shift your waking and sleeping cycles closer to those of the destination city.

Researchers and veteran business travelers offer these tips:

**In advance of the trip:** For a day or two before traveling across several time zones, try to get extra rest. Make an effort to go to sleep and wake up as close to the appropriate times in your destination city as is practical. Pack a comfortable pillow, family photos, or other familiar items from home. If possible, give yourself a day in the new town before your first important business meeting.

**In flight:** First, set your watch to the time in the city where you will be landing. Unless you have a crucial deadline, don't work on the plane. Try some light reading, a video game, soft music, or a nap. Eye shades and earplugs work for many people. While awake, stretch and move about the plane when it's permitted.

**On arrival:** When you check in at your hotel, consider taking a short nap—no more than two hours—if you can't stay awake until the new city's typical bedtime. Check your room for outside noise and light sources, and shut out as much as possible. Carry out as much of your home pre-bedtime routine as you can. Try to go to sleep that night close to the normal bedtime in that time zone.

**While the sun shines:** Catch some rays. Light is the most important tool to help reset your internal clock, researchers say. On the first day or two in your destination city, spend time outdoors during daylight hours. If that is not practical, position yourself near a bright light source during the daytime. Staying out of bright light for several hours before bedtime in the new time zone might help you fall asleep at the right time.

**At mealtime:** Watch your diet. Alcohol, caffeine, and sugar will inhibit sleep anywhere, but such stimulants can be particularly disruptive when you're feeling the effects of jet lag, researchers say. It is less clear whether eating different kinds of foods in the morning and the evening can help overcome the discomfort of jet lag.

Some travelers order breakfasts high in protein, such as meat, fish, and dairy products, to provide solid energy for the day. For dinner they shift to carbohydrates, such as bread and pasta, which some say can induce drowsiness.

Tokyo's Hotel Okura gets about 50 requests a month for special meals and other anti-jet-lag amenities.

**At the medicine cabinet:** Be cautious about drugs. Some weary travelers take antihistamines, tranquilizers, or a synthetic version of the hormone melatonin to try to get to sleep on the road.

However, some researchers urge travelers to consult a doctor before using the hormone, which can be bought in health-food stores.

"The research from melatonin is still far from conclusive," says Dr. Thomas Roth, chief of the Division of Sleep Medicine at Henry Ford Hospital in Detroit.

**Heading home:** Start shifting your schedule back to that of your home time zone as soon as you can.



Tokyo's Hotel Okura suggests protein, top, for breakfast and carbohydrates at night.

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distances to 56 inches from 44 as part of a makeover of its aircraft following the February change of the company's name from USAir. And Delta Air Lines officials say they plan to unveil a big package of comfort enhancements in the near future.

Airlines have regularly commissioned surveys to determine passengers' in-flight priorities, notes Delta spokesman Dean Breest, and "space and comfort have always been at the top of any study."

Dr. Allen Elkin, director of the Stress Management Counseling Center in New York City, reminds travelers that the hours just before and after a flight can be among the most stressful of a business trip.

He recommends the "20 percent rule"—leaving at least 20 percent more time for everything you do at airports, from checking baggage to boarding. "Don't build in worry," says Elkin. "Assume everything's going to take longer" so you can curb the anxiety that can accompany a tight schedule.



A light box in experimental Hilton hotel rooms helps defeat jet lag by adjusting biological rhythms.

in sync with their new location if their schedule doesn't permit time outdoors.

"Studies show that light is critical for shifting our body rhythms. It sets your clock," says the Ford Hospital's Roth, who works with the National Sleep Foundation.

The Hotel Okura in Tokyo has also seen its share of bleary-eyed travelers over the years, enough to warrant creation of its own anti-jet-lag program. Offering what it

#### Sounds Of Silence

No matter how smooth your flight turns out, a bad night in a hotel room can give your business trip a bumpy start. Looking for ways to help customers snag as much slumber as possible, the Hilton chain recently teamed up with the National Sleep Foundation to build a better bedroom.

The result: 25 experimental Sleep-Tight rooms—five each in Honolulu, Los Angeles, Chicago, Washington, and New York—designed to minimize the distractions that keep travelers awake.

Some of the improvements were relatively obvious: soundproofed windows, extra carpet padding, a white-noise machine, and increased insulation in walls to reduce noise intrusion. Other innovations were funkier, including a "glow lamp" that takes about 15 minutes to transform the room gradually from darkness to full illumination, mimicking sunrise.

The room is stocked with a variety of pillows and blankets. An alarm produces two wake-up calls to allow snoozing and ensure against missing that morning meeting. The minibar has been stripped of its caffeine and alcohol in favor of healthful snacks. And a "biorhythm light box" promises to help jet-lagging travelers get

calls "a complete arsenal of weapons for fighting back," the Okura recommends protein- or carbohydrate-rich meals—sushi optional—plus customized pillows that guests can register and have placed in their room automatically upon their next visit. A light box like the ones in the special Hilton rooms is available, as are saunas and relaxation videos.

Back in the States, the Park Hyatt Los Angeles has a program for visitors suffering from jet lag, including such diverse treats as round-the-clock room service and an all-American rubber ducky. And the Holiday Inn chain is planning to spend about \$1 billion on a top-to-bottom renovation of its facilities, with many improvements focused on helping guests sleep well.

The importance of getting enough rest on business trips can't be overemphasized, according to some travelers who have learned the hard way. Says Peter Knop, an investment banker and recycling entrepreneur from Chantilly, Va., whose business takes him as far afield as South Africa: "One of the most important things in business is having a clear, sharp mind and being able to outthink the other guy."

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# Family Business

*Handling the coming transfer of wealth; going by the book for insights on managing.*

## PLANNING

### Major Shifts In Leadership Lie Ahead

By Sharon Nelton

**F**amily businesses in the United States are facing a period of unprecedented change—and possibly turmoil—a new study suggests.

The leadership of more than 40 percent of the nation's family businesses will change hands outright or begin to shift within the next five years, according to the Arthur Andersen/MassMutual American Family Business Survey '97. The poll of 3,033 family businesses showed that 28 percent expect their CEO to retire in the coming five years. An additional 14 percent said their CEO would become semiretired in the same period. However, the vast majority—92 percent—said ownership would remain in the family.

"Turnover at the top is nothing unusual," says Ross W. Nager, executive director of the Houston-based Arthur Andersen Center for Family Business. "What's unusual here is the big percentages of these companies that are going to go through it."

This is the first time that Arthur Andersen, a professional-services organization, and MassMutual—The Blue Chip Company, the nation's 10th-largest life-insurance company, have joined forces on a major survey of family firms. Each has conducted surveys of its own in the past.

The study also forecasts major changes in the nature of leadership of family firms. One-fourth of the respondents said that the next CEO may be a woman; 5 percent of the companies surveyed already have a woman as CEO.

Family businesses that once considered only male leadership but are now consid-

ering women as well are doubling the number of possible successors, according to Nager. "What that means is we have doubled the potential to get the best, most qualified person at the helm."

Also, 42 percent of the respondents indicated that the company may be led by co-CEOs in the succeeding generation—the

home at all for these folks," says G. Scott Budge, senior vice president of SEI Investments in Oaks, Pa., and executive director of the SEI Family Enterprise Center.

With so much family-business succession and the attendant transfer of estates expected in the near future, Budge also fears a huge increase in divorces, litigation over wills and estates, and warring among branches of families. Family-business experts cite a 1993 Cornell University study that forecast that \$4.8 trillion in wealth would be transferred from one generation to the next within 20 years. Much of that wealth, they say, is within family businesses.

Says Lara Beaudoin, associate director of MassMutual's family-business activities in Hartford, Conn.: "It is troubling to see, from the survey results, that many of these companies are neglecting the types of strategic planning that will be vital as they go through this transitional period." Only 31 percent of the respondents said they had written strategic plans.

Family-business owners, say experts in the field, can draw lessons from the survey results. Among them:

**Do formal strategic planning.** "It will focus your attention on issues that are important to the business and to the family," says Nager. He points out that families that do strategic planning are more likely to be able to get through the difficult discussions necessary to resolve other issues, such as buy-sell agreements and employment policies for family members.

**Think in a "total-wealth-management mode."** The survey shows that many families have accumulated significant wealth outside their businesses but that few have a formal process for managing their assets. "The business owners still appear to be underdiversified and not that careful and strategic in how they invest and how they monitor their investments," says Budge.

**If you are contemplating a co-CEO arrangement, proceed with caution.** "There are different risks and different dynamics that arise compared to the single, powerful CEO," says Nager. "It can work very well, but it creates a significant need

### Major Challenges Facing Family Firms

Challenge	Family-Business Leaders Who Ranked It No. 1
Domestic Competition	32%
Lack Of Qualified Workers	13
Management Succession	9
Labor Costs	8
Regulatory Burdens	8
Estate/Death Taxes	5
Recessionary Environment	5
Income Taxes	4
Differing Needs Of Owners	4
Foreign Competition	3

(The remaining 9 percent of votes went to a variety of issues, none of which was ranked as the top challenge by more than 2 percent of the respondents.)

SOURCE: ARTHUR ANDERSEN/MASSMUTUAL, AMERICAN FAMILY BUSINESS SURVEY '97

same percentage reported by an Arthur Andersen survey two years ago. The new study, however, shows that more than 40 percent of the companies anticipating co-CEOs believe that one of the CEOs may be a woman. (Questions on women were not included in the earlier study.)

The median company in the survey has annual revenues of \$9 million, employs 50 people, and is 46 years old.

Some family-business experts express alarm over some of the findings. For example, 32 percent of the respondents named domestic competition as their greatest business challenge, while only 3 percent cited foreign competition. "It looks to me [as if] the idea of globalization and the global nature of the economy has really not hit



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## PLANNING

for developing some mechanism to resolve disagreements."

He warns parents not to anoint all children as co-CEOs simply because they love them equally and can't make a choice. "Only qualified, competent, capable, moti-

vated people should be in the CEO spot," he says.

Single copies of the 1997 survey findings are available free from the Arthur Andersen Center for Family Business; call 1-800-924-2770.

## OBSERVATIONS

## Fresh Pages For Family Firms

By Sharon Nelton

Searching for inspiration or just plain help in managing your family business? A crop of recent books may offer what you're looking for. Here's a glance at some of them. They are available in bookstores unless otherwise indicated:

*Personal History*, by Katharine Graham (Knopf, \$29.95). This is the best autobiography centered on a family-owned business since Thomas J. Watson Jr. gave us the story of IBM in *Father, Son & Co.* seven years ago. Graham describes her life in juicy detail: first as the daughter of Eugene Meyer, who bought *The Washington Post* in 1933; then as the wife of Philip L. Graham, who succeeded Meyer as publisher; and finally as publisher and chairman of the expanded Washington Post Co.

Graham took over leadership of the *Post* in 1963 after her husband's suicide. Although she was unprepared to run the company, she wanted to hold on to it for her four children. She rose to the challenge, becoming one of the most admired newspaper publishers of her time. Her son, Donald E. Graham, now runs the company.

Some special pluses: *Personal History* is set against the historical backdrop of the entire 20th century; it offers wonderfully gossipy stories about Presidents Kennedy, Johnson, and Nixon; and Graham frequently exhibits a delicious sense of humor. If it weren't so large (644 pages), you could take this book to the beach.

*How To Succeed In Business Without Being White*, by Earl G. Graves (HarperBusiness, \$25). A champion of African-American economic development and family business, Graves is the pub-

lisher of *Black Enterprise* magazine and head of Earl G. Graves, Ltd., a family business based in New York City. This guide to successful entrepreneurship includes a chapter on teaching children to be economically savvy, regardless of whether they will join the family firm.

*You Don't Have To Die To Win*, by D. Wayne Rivers and Thomas H. Campbell, principals of a consulting firm that specializes in financial strategies for family companies with high net worth. Chapters cover

topics such as assembling an advisory team, estate planning, buy/sell agreements, wealth-transfer techniques, and the role of life insurance in estate and succession plans. The book is available for \$20.95 (including shipping) from the authors' company, The Family Business Institute, P.O. Box 19031, Raleigh, N.C. 27619-9031; (919) 783-1880.

*Transforming Business Families* (revised edition), by Gerald Le Van, a lawyer who be-

came a family-business consultant. Le Van poses 39 critical questions that business families must address, and he follows a hypothetical family as it struggles with these issues. Questions include: "Are we committed to the future of our family business?"; "How do we select the next leader of the company?"; and "Who should own stock in the business?" Available for \$21 (including shipping) from The Le Van Co., 101 West St., P.O. Box 10, Black Mountain, N.C. 28711; (704) 669-0131.

### Correction

The May column "A Different Message For Daughters" placed Business Cents founder Cindy Iannarelli in the wrong town. She is in Bridgeville, Pa.



PHOTO: T. MICHAEL KEZA



## MARK YOUR CALENDAR



### June 10, Weston, Mass.

"Buying In and Selling Out the Family Business" is a meeting that will detail how one man acquired a company from other family members and later sold it. Call Paul I. Karofsky of the Northeastern University Center for Family Business; (617) 320-8015.

### June 11, Baltimore

"Leadership Transition" is the topic of a panel of business owners at the Loyola Center for Closely-Held Firms at Loyola College in Maryland. Call (410) 617-2691.

### June 19, Philadelphia

"Family Meetings: What We've Learned" features two business families discussing the how's and why's of family meetings. Call Henry Landes of the Delaware Valley Family Business Center; 1-800-296-3832.

### June 23-27, Bridgeville, Pa.

"Camp Business Cents" is a series of five-day programs aimed at helping children in grades 1 through 8 develop their business sense. Additional camps begin July 7 and July 27. Call Cindy Iannarelli; 1-800-672-4639.

### June 24, Northampton, Mass.

"Learning the Ropes—Seven Steps to Empowerment and Respect in Your Family Business" is the topic of a meeting offered by the University of Massachusetts Family Business Center. Call Ira Bryck; (413) 545-1537.

### June 27, Cambridge, Mass.

"Emotional Intensity: Understanding the Dynamics of the Family Business System" is a one-day program for family-business members and advisers. Call the Cambridge Center for Creative Enterprise; 1-800-531-5755.

### Aug. 7-10, Snowmass Village, Colo.

"The Aspen Family Business Gathering" is an interactive, informal conference for families in business. Registration is limited. Call the Aspen Family Business Group at 1-800-835-5883.

### How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.



# Small Business Financial Adviser

*It pays to hire your kids; zero in on bad checks; test-drive a new exec; a tax break for large 401(k)s.*

## Hiring Your Child: Tax Breaks And Trade-Offs

By Gloria Gibbs Marullo

If you employ a teenage son or daughter in your business this summer, both the child and your company may be eligible for a break on payroll taxes. In addition, you can deduct the wages as a business expense, and your child can start saving money for college. The downside is a reduction in college financial aid if the student makes more than \$1,750 in a given year—whether on your payroll or someone else's.

The tax break is an exemption from the requirement that you withhold Social Security and Medicare taxes (together called FICA, or Federal Insurance Contributions Act, taxes) from your child's paychecks and pay an equal amount on the child's behalf. By not paying FICA taxes and not withholding them from your child's paychecks, together you save taxes equal to 15.3 percent of wages—7.65 percent each. The FICA exemption is available for children under 18.

The savings add up, says Bruce Houle, who owns an insurance agency in Culbertson, Mont., and employs his two sons. "I'm a sole proprietor," says Houle, "and my younger son is under 18. Last year he made \$5,500, which means we saved over \$840 by not having to pay FICA taxes."

### A Further Cost Saving

What's more, if your company and your child qualify for the FICA exemption, you also qualify for an exemption from the FUTA (Federal Unemployment Tax Act) tax. The tax, which is paid by employers and typically is less than 1 percent, is levied on the first \$7,000 in annual wages, and the exemption applies to youths up to age 21.

To qualify for the FICA and FUTA exemptions, your business must be either a sole proprietorship or a partnership comprising only you and your spouse. If you qualify, there is no limit on the amount of money your child can make and still be exempt from FICA and FUTA taxes.

Even if your business doesn't qualify for the FICA and FUTA exemptions, however, putting your children on the payroll can still have a positive impact on both their character and your cash flow, because their wages can be deducted from your income taxes as a business expense.

Parents who hire their children say they value not only the tax savings but also certain less tangible benefits. They enjoy teaching their sons and daughters about the business, they believe that the work experience fosters responsibility, and they appreciate the fact that the wages they pay remain in the family, in effect, typically earmarked for worthwhile purposes



such as college education.

Such pluses are cited by Lowell and Cindy Young, who own a sporting-goods store in Plentywood, Mont. "Our two older daughters have worked in the store since they were freshmen in high school," says Cindy. "It has helped us save money on income taxes, and it has taught our daughters how to work and handle money."

Houle has been showing his sons the insurance business and has seen their roles expand at the agency. The sons started out at minimum wage in the seventh or eighth grade doing cleaning and odd jobs around the office. As they grew older, their responsibilities and wages increased. His college-age son now helps with insurance paperwork during the summer.

Noting the tax benefits, Houle adds: "Every dollar my sons earn is a dollar I can deduct on my taxes as wage expense. I am in the 28 percent federal-tax bracket, plus I pay 15.3 percent self-employment tax and 5 percent state tax for a combined tax rate of 48 percent."

"Last year my boys [together] earned wages of \$7,500, so I saved about \$2,500 in [federal and state income] taxes over and above the 15.3 percent FICA-tax savings on my younger son's wages."

### The Wage Boundaries

Richard Rampell, an accountant with Rampell & Rampell Inc. in Palm Beach, Fla., advises clients who hire their children that "the kids have to perform real services."

Arriving at an appropriate wage can be difficult. Rampell recommends that clients consider whether they would pass what he calls the "egg-on-the-face" test: "Will you get laughed out of the room at an IRS audit?"

In general, your child should not earn more than you would pay a nonfamily member. But you do have a bit of leeway. "If you pay little Susie \$7 an hour and you could realistically find someone else to do it for \$5.50, an auditor will likely let it pass," according to Frederick W. Daily, author of *Tax Savvy For Small Business* (Nolo Press, \$26.95). "But you are pushing the envelope if you pay Susie \$20 an hour."

While a lot of children begin their employment doing menial tasks, young people with skills can command higher wages. "One of my clients has a son who's good with computers, and the client hired



## SMALL BUSINESS FINANCIAL ADVISER

him to create a Web page," says Rampell. "Even though the child made less than the going rate, the cost worked out to \$20 or \$25 an hour."

You also have to document the hours your children work, says Rampell. The Youngs required their daughters to fill out timecards just like other employees.

In addition, paychecks should reflect a reasonable pay schedule, Daily advises. "If you make only one or two lump-sum payments in a year, this may look suspicious to an auditor, like you are trying to fudge on your taxes instead of legitimately employing Junior."

### The College Equation

Besides the tax savings and on-the-job training, a big reason to start your child working is to enable him or her to save money for college. As most parents are painfully aware, by the time the children are on the payroll, they're only a few years away from tuition bills and financial-aid forms. And this is where the figures require close monitoring.

"What many people don't understand," says Rick Darvis, an accountant in Plentywood, "is how the financial-aid

formula works for kids in college. For any income over \$1,750 that a college kid earns at any job, eligibility for financial aid—both loans and scholarships—decreases 50 cents on the dollar."

The formula for determining what the student needs in scholarship and loan funds begins with the total cost of college and deducts the parents' and student's required contributions. The student's required contribution is figured on what he or she made in the prior calendar year. For example, for the 1997-98 school year, the \$1,750 earnings threshold would be applied to the student's 1996 earnings. "So in the spring of a kid's junior year in high school," says Darvis, "you have to start planning around the \$1,750 limit for the first year in college."

College-financing authority Richard Black says that although "most students don't make \$1,750 in a year," those who can earn that much or more learn quickly to calculate the possible impact of such

**Student income over \$1,750 reduces eligibility for college financial aid.**

—Rick Darvis,  
Accountant

earnings on their financial-aid package. Black is director of financial aid at the University of California at Berkeley and author of *The Complete Family Guide To College Financial Aid* (Perigee Books, \$12).

If a job on campus is part of a student's financial-aid package, those earnings are not included when calculating the student's required contribution.

If you are thinking of hiring your teenagers in your business and their earnings would substantially surpass \$1,750, Darvis recommends that you compare the savings in FICA, FUTA, federal, state, and self-employment taxes with the decrease in financial aid.

"But if you've got a kid who's only 15," quips Darvis, "my advice is to work him pretty hard."

*Gloria Gibbs Marullo is a CPA and business writer in South Bend, Ind.*

### FRAUD PREVENTION

## Screening Out Bad Checks

Merchants took in more than \$13 billion in bad checks in 1996, an 18 percent increase over the year before, according to the credit industry's *Nilson Report*.

The rise in check fraud has fueled a nearly threefold increase in the volume of checks screened by electronic-verification companies over the past five years, to 227 billion from 80 billion.

Small businesses increasingly are signing up for check-verification services because they don't have the time, personnel, or expertise to track down bogus-check writers. Fees for these services are based on the volume of checks accepted from customers, the type of business, and the relative risk of check fraud, which can depend on the business's location.

Electronic-verification companies offer two basic types of service:

■ Check guarantee, which lets merchants accept checks that the service preapproves. If a check bounces, the

verification company covers the merchant's loss.

■ Check verification, a less-expensive service that examines a database for any negative information about the account that would make accepting the check risky. Any loss that occurs after a check gets through the verification screen is absorbed by the merchant. Some businesses sign up for an additional collection service to try to recoup at least some of the money from customers whose checks bounce.

As con artists adopt more-sophisticated tactics, such as using desktop-publishing techniques to print counterfeit checks and fake driver's licenses, the verification and acceptance companies are responding with even higher-tech methods.

"We installed an electronic check reader that plugs into our credit-card swipe device," says Kay Rogers, secretary and treasurer at Houston-based Northwest Honda, a motorcycle and watercraft dealer. Terminals that screen both credit cards and checks cost around \$400. Electronic check readers that plug into existing credit-card terminals cost \$250 to \$300.

"Before the new reader was installed," Rogers says, "we wasted a lot of time and money trying to chase down bad checks."

But the electronic check reader is just part of the deal. "We subscribe to TeleCheck's guarantee service," Rogers says, "which means they pay for any bad checks that get through the verification screening."

According to security consultant Read Hayes, president of Loss Prevention Specialists in Winter Park, Fla., "Even though you pay a little more, the guarantee service is ideal for small businesses that handle a lot of checks or are located in higher-risk areas."

There's a long list of check-verification and check-guarantee services from which to choose. Some, such as Check Service, CheckCare, Equifax, NPC, SCAN, and TeleCheck, are nationwide. Others are regional or local but have access to national database information. Most are listed in the Yellow Pages under "Check Verification and Recovery Service."

"To find the right company to suit your needs," says Hayes, "ask each one you're considering to provide five small-business clients' names and phone numbers, and call each one." Because fees vary considerably, it's a good idea to shop around.

—Peter Weaver

*The author is a business writer in Bethesda, Md.*





MANAGEMENT

# Executive 'Temps' Cut Costs

Small businesses looking to control project-management costs—or to “test-drive” a new manager before making a full-time offer—may be able to do so by using temporary executives.

“Accessing interim executives allows companies to minimize fixed costs, maximize profitability, and maintain the nimbleness required by today’s global marketplace,” says Paul Dinte, president of Dinte Resources, Inc., a McLean, Va., firm that specializes in executive searches and interim-executive appointments.

Known by various names—rent-a-boss, just-in-time executives, executives for rent, or, more commonly, interim executives—the concept extends the use of temporary employees from the secretarial pool to the head office.

The temporary-executive idea grew out of the tidal wave of cor-

porate restructurings and layoffs that flooded the labor market in recent years with highly skilled and formerly high-level managers.

The downsizing trend created a new niche for executive-search firms and a new way for small companies to get affordable senior-management talent.

Dinte, who used to specialize in recruiting financial executives, saw the opportunities for an interim-executive practice in the aftermath of the 1987 stock-market crash.

Nearly half of his interim placements ultimately are hired full time by his client companies, and he markets his “try-before-you-buy” approach as a way for firms to “minimize the costly risk of hiring the wrong person.”

Douglas Reiter, president of Douglas Reiter Co., Inc., an executive-search company in Portland, Ore., says that “most of the interim executives we place are with small businesses” that have clearly identified needs for specific projects. Placements include high-tech and computer-related positions, financial jobs, and plant-manager positions, he says.

Pay scales for interim executives vary,

he says, but the standard fee is 150 percent of salary, with the search firm getting a 30 percent commission. The interim executive’s pay, taxes and benefits are handled by the search firm—not the employer.

Paul Coco, chief financial officer of Bamberger Polymers Inc., in Lake Success, N.Y., hired an interim information-systems manager through Dinte Resources about a year ago to oversee the redesign and installation of a computer system.

“This kind of project is not something that companies do every day. Once you do it, it’s over,” Coco says. “We looked at consulting firms, which were much more expensive. Going with an interim executive was the best bet for us.”

To draw the best results from the use of an interim executive, carefully define the required skill level of the executive and the scope of the project, and get company officials involved in the search.

To find an executive-placement firm with rent-a-boss services, look in the Yellow Pages under “Executive Search Consultants” or “Interim Executives.” Another useful resource is *The Directory of Executive Temporary Placement Firms*, available for \$25 from Kennedy Publications in Fitzwilliam, N.H.; 1-800-531-0007.

—Stephen Blakely

TAXES

# Gone But Not Deductible

It’s expensive to build buildings—and to tear them down. When you’re putting up a building, at least you can start immediately to deduct depreciation on both your financial statement (commonly called “book” depreciation) and your company’s income-tax return. But tearing down an old building is another story.

“If you demolish a building,” says Michael Hollowell, director of client tax services with Price Waterhouse in South Bend, Ind., “you have two tax issues: What do you do with the costs of demolition? And how do you treat any remaining basis in the building?”

The basis of a building is generally the original cost plus any capital improvements minus the depreciation claimed over the years. For financial statements, any remaining “book” basis can be written off as a loss in the year the building is demolished. The tax rules, however, require that any remaining taxable basis be added to the value of the land. “You have to wait until the land is sold to get a tax benefit,” says Hollowell.

When the land is sold, the remaining taxable value of the razed building increases the taxable cost of the land—which results in lower profit and a lower capital-gains tax.

The same holds true for the cost of demolition. For “book” purposes, demolition costs are deducted in the year the building is torn down. For tax purposes, the demolition costs must be added to the value of the land, thereby reducing your capital-gains tax when the land is sold.

The rule delaying the tax benefit of demolition is especially frustrating for family businesses.

Fortunately, Hollowell has a solution to get a quicker tax break: Donate to your local fire department the building you’d like to demolish. “The fire department gets to practice putting out fires,” says Hollowell, “and you get a charitable donation for the fair market value of the building.”

Hollowell cautions, however, that this “hot” tip is not for everyone. “You need to consider the remaining tax basis in the building, the structure of the building, and the cost of more traditional methods of demolition. Then, if you decide the donation makes sense, you’ll need the

approval of the fire department and a formal appraisal of the building’s fair market value.”

While there will probably be some cleanup costs after the fire that must be added to the cost of the land for tax purposes, the issues of how to get a current tax deduction for demolition costs will be dispatched quickly—and safely—by the fire department.

—Gloria Gibbs Marullo





## INVESTING

# A Tax Break Probably Not Worth Taking

By Randy Myers

Over the next three years, Congress is offering a gift—in the form of tax relief—to anyone who makes large withdrawals from a 401(k) account or other retirement plan.

Tax experts say most people would be better off politely refusing.

Under existing tax law, anybody who takes money out of a qualified retirement plan—an individual retirement account,

advantage, the money withdrawn from the retirement plan would have to earn more than twice as much outside the plan as it would have earned inside it.

Why? Because when you withdraw money from the plan, you're not only giving up the advantages of tax-deferred compounding inside that plan, you're also subjecting yourself to a hefty bill from ordinary income taxes.

For example, suppose you take \$1 million out of your retirement plan this year.

It centers on the possibility that Congress could raise income-tax rates between now and 1999. Consequently, if you want to ensure that you won't pay taxes at rates higher than they are today, act now.

But because any increase in federal income-tax rates would almost certainly be preceded by a very public debate in Washington, you should have plenty of time to take evasive action before any new rates take effect.

Others who may find the tax moratorium useful are people who need special withdrawals to cover expenses or pay off large debts, such as mortgages, and people who wish to fund a charitable gift during their lifetime. In the latter case, giving the money to charity would reduce the income-tax bite on the withdrawal.

Finally, people who because of age or illness don't expect to live past 1999 also may wish to take advantage of the excise-tax moratorium. The reason is that Congress did not suspend the 15 percent excise tax for estates.

Thus, if the owner of a large retirement account with "excess accumulations"—as defined by the Internal Revenue Service—dies, his or her estate would be subject to the 15 percent penalty on the excess. However, if the decedent's will specifies that the assets go to a surviving spouse, the transaction would be tax-free. Even then, combined estate and income taxes as high as 75 percent could apply upon the death of the surviving spouse.



Keogh, or 401(k) plan, for example—is obliged to pay a 15 percent excise tax on withdrawals over \$160,000. (That's the threshold this year. The figure is adjusted annually for inflation.)

But last year, Congress voted to suspend the excise tax in 1997, 1998, and 1999. On the surface, that sounds like a good deal, especially if you have a high-balance retirement account but aren't making withdrawals from it. If you wait several years and then start taking big sums out (once you reach age 70½, the law requires that you begin regular withdrawals), you could get whacked by the excise tax. So taking the money now looks smart.

There's just one problem:

"Once you take the money out, you lose the ability to defer taxes on income that's being generated by that money," explains Keith Oates, a tax partner in the Boston office of accounting firm Deloitte & Touche and head of the firm's individual-tax-services practice. "That's what attracted you to the retirement plan in the first place."

## Hard-Working Money

Oates says his analysis reveals that for an investor to use the tax moratorium to

Further suppose that you and your spouse have other income between \$151,750 and \$271,050, which puts you in the 36 percent income-tax bracket for 1997.

Right off the bat, your \$1 million withdrawal will be trimmed to \$640,000 as a result of your federal income tax. Any state income taxes you pay would reduce your take even more. You must now hope that you can earn more in a taxable investment on that \$640,000 you have left than you could have earned on \$1 million in your tax-deferred retirement account.

## For Some, A Good Idea

To be sure, taking advantage of the excise-tax moratorium will make sense for some people, particularly those with big-balance accounts who are already past 70½ and so must make regular withdrawals of substantial size anyway. But even they may want to wait until 1999 to make a bigger-than-normal withdrawal so that their money can continue to compound tax-deferred as long as possible.

There is some risk to waiting, Oates

**This is the last in a three-part series on 401(k) plans.**

## No Time For A Hasty Decision

Clearly, most people with large retirement accounts won't find themselves with a compelling need to make large withdrawals now, even with the tax carrot that Congress is offering. But Oates says it's surprising how many taxpayers need to be "talked in off the ledge" when they become overly eager to avoid a tax, regardless of the consequences.

"This three-year window, for the vast majority of people, is a Trojan horse," agrees David Hirschey, an attorney with Northern Trust Co. in Chicago. "It appears as a gift, but really it's detrimental to you, just as the Trojan horse appeared to be a gift to the people of Troy but was really detrimental to them." **NB**

Randy Myers is a financial writer in Dover, Pa.



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# April Poll Results Readers' Views

## No To Federal Funds

**E**ducation reforms and school construction should be funded by state and local agencies, not by the federal government, said respondents to a *Nation's Business* poll.

Readers who answered the Where I Stand questions in the April issue consistently opposed a broader federal role in education to boost standards for students and teachers, to pay for building new schools and repairing existing ones, or to link schools to the Internet.

Business is becoming increasingly

concerned about the quality of education in the nation's public schools, fearing that there will be a shortage of qualified workers in the years ahead. School funding also is likely to become a major issue as enrollments increase over the next decade.

Readers were more closely divided on whether there should be continued efforts to improve learning among disadvantaged children through the federal Title I program and on the question of how school-to-work programs should be funded.

Here are the complete results of the poll:

### Questions And Answers

**The number of K-12 students in public schools will increase by 2 million over the next decade. Where should funds come from to build new facilities and repair or replace outmoded ones?**

Federal government	14%
State and local agencies	80
Undecided	6

**American students on average read below levels appropriate for their grades. Could a proposed federal volunteer-tutor program help all children read by themselves by the end of the third grade?**

Yes	24%	No	62%
Undecided	14		

**Most schools lack up-to-date technology. Where should funds come from to link every school to the Internet by 2000?**

Federal government	15%
State and local governments	70
Undecided	15

**Do you support continued efforts to improve learning among poor children through Title I, the long-standing federal program of special instruction during school hours for disadvantaged students?**

Yes	34%	No	52%
Undecided	14		

**Efforts are under way to improve student learning and teacher performance. From where should additional resources to support these efforts come?**

Federal government	13%
State and local governments	78
Undecided	9

**Should there be continued federal funding to support school-to-work programs, or should states and localities or private businesses pick up the costs?**

Continued federal funding	16%
State and local funding	53
Private-sector funding	31



# Where I Stand

## On Cutting Taxes



Business groups, including the U.S. Chamber of Commerce, have supported a number of tax reforms and reductions to free up more funds for investment and economic growth. These questions seek your views on various tax issues. Results of this poll will be published in the August issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636.

**1**

Which one of these tax changes is most important to you?

1. Estate-tax reform
2. Capital-gains-tax reform
3. Alternative-minimum-tax (AMT) reform
4. Expanded eligibility for tax-deductible individual retirement accounts (IRAs)
5. Tax reforms for the self-employed and small businesses
6. Child tax credit for middle-income families

**4**

Aside from repeal, which aspect of AMT reform is most important to you?

1. Lowering the rates
2. Allowing taxpayers who are subject to the AMT to use the full range of depreciation methods available to other taxpayers
3. Allowing unused minimum-tax credits to offset current-year AMT liabilities

**2**

Aside from repeal, which type of estate-tax reform is most important to you?

1. Cutting the rates
2. Increasing the unified credit and indexing it for inflation
3. Exempting family-owned businesses from the tax

**5**

Which aspect of expanded IRAs is most important to you?

1. Increasing the income limits for deductible IRA contributions
2. Creating new nondeductible IRAs in which contributions and earnings would not be taxed upon withdrawal
3. Allowing for penalty-free withdrawals for qualified purposes, such as first-home purchase and medical expenses

**3**

Aside from repeal, which aspect of capital-gains-tax reform is most important to you?

1. Cutting the rates
2. Indexing capital assets for inflation
3. Providing exemption for specific assets, such as a principal residence
4. Allowing for capital-loss treatment on sale of a principal residence

**6**

Which of these tax changes for the self-employed and small businesses is most important to you?

1. Expanding the home-office deduction
2. Increasing the health-insurance deduction to 100 percent
3. Clarifying independent-contractor rules
4. Reducing the maximum tax rate on reinvested business earnings
5. Increasing the equipment-expensing allowance

**Send Your Response Today!**



## Reprints! Get Ready For Business



# Free-Spirited Enterprise

By Michael Barrier

## Sweets For The Suite

We've been thinking lately about how it's possible to say "thank you" in a way that does double duty—you know, you're expressing gratitude so cleverly that your gesture of thanks arouses gratitude on the part of the recipient.

Of course, it's easier said than done, usually because most thank-you gestures are pretty much self-contained. Flowers, candy, even that bottle of fine amber liquid—all nice but conventional. In our newspaper days, one organization said "thank you for covering us fully and fairly" by sending us a cheese ball every Christmas. It was pretty good cheese, but it didn't come wreathed in a subtle sense of obligation.

Now a couple of companies have come up with novel spins on a tried-and-true gift: cookies.

An Encino, Calif., company called Good Fortunes offers a fortune cookie that looks like a Chinese-restaurant item with an overachieving thyroid. It's 6 inches high and 5 inches wide (and dipped in chocolate and, if you prefer, nuts or other toppings—not exactly standard at our local establishments offering Chinese cuisine).

What makes these fortune cookies business-friendly is Good Fortunes' ability to provide personalized fortunes (slips of paper that are, like the cookie itself, larger than usual—11 inches wide). You can choose

from lots of standardized messages, but you can also use a customized

message and even incorporate your corporate logo if you prefer.

The possibilities are obvious: "It's [company name]'s good fortune to have you as a new customer," perhaps, or "You're a smart cookie to be doing business with [company name]." Or maybe, if you're a particularly tough-minded kind of business and



you're dealing with a customer who takes fortune-cookie fortunes seriously: "You will fall down the stairs and break your neck if you don't start paying [your company's name here] on time."

The big cookies cost \$18.50 or \$22.50, depending on how they're packaged. Good Fortunes sells fortune cookies in other sizes and permutations, and it can also put a company name on the wrapping (although you'll have to buy

\$150 worth of cookies to get that touch). To get a descriptive brochure and inquire about prices, call 1-800-644-WISH (1-800-644-9474).

Another company that offers gifts of the same general kind is Cookie Bouquets of Columbus, Ohio, whose shtick is presenting cookies in a form evocative more of florists than of Mrs. Fields. There is, for example, what it calls "Luscious Longstems," described in the company's catalog as "giant cookies on long stems, wrapped in red, cradled in fern and baby's breath, and presented in a floral box with a colorful ribbon and bow."

Like Good Fortunes, Cookie Bouquets has targeted the business market, in its case by offering a page of "Business Boosters" that

include, for example, a mallard-shaped basket filled with three dozen individually wrapped cookies.

We can't help but feel that Cookie Bouquets' inventiveness flagged a bit, though; several of the "Boosters" incorporate mugs with corporate logos, and it's hard to think of anyone in business who isn't overloaded with mugs.

Some of your customers might be more taken with the bouquet—not one of the "Boosters"—that has a plush

monkey in the middle.

To get a Cookie Bouquets catalog, call 1-800-233-2171.

## You Didn't Know You Needed That?

Last issue, we called your attention to some novel greeting cards that were trying to tap markets we didn't know existed. More products of that kind:

**Suspender clips that won't lose their grip.** These come from a Southfield, Mich., company called the Hold Up Suspender Co., which says that it has identified a problem that you may not have noticed—unless you see a lot of men who are struggling to keep their pants from falling down. Its clips look much like other suspender clips, the company says, "but feature a center pin that pierces the fabric like a needle, locking into the waistband without cutting or damaging the fabric."

The clips come not by themselves, but attached to suspenders, a set of which sells for \$29.95; you can order them by calling 1-800-700-4515.

## Advice for the pulled-over.

Do you know what you should do when you're pulled over by the police? Eric Bryant of Cleveland, who does business under the name Arrest Me Not, has published a whole book on the subject (he sells it for \$7), and he will send you a two-page guide called *ARRESTalk—Correct "Pullover Etiquette" for Business Travelers* in exchange for a stamped, self-addressed envelope. Write to ARRESTalk, c/o Arrest Me Not, P.O. Box 08685, Cleveland, Ohio 44108-0685.

In case you're wondering, Rule No. 1 is to keep your hands on the wheel.





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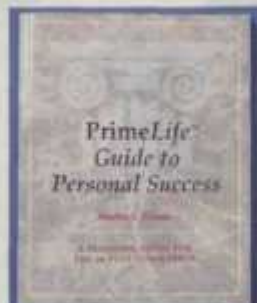
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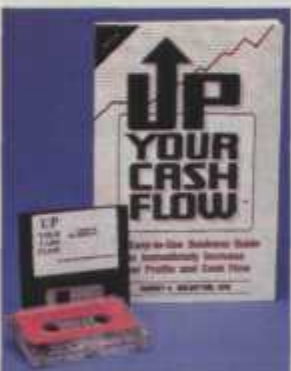
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# Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Stephen Blakely

## UTILITIES

### Left In The Dark On Power Failures

The electric transformer in front of our company has blown up twice in three years. No one was injured, but the transformer failures damaged some property—including our company's computer—cut off our phones, and left our 17 employees unable to work for several hours. The utility says it is not liable for any of the damage, and the state public-service agency says it cannot do anything about losses from power outages. Where can a small firm go for help?

*L.C., Hialeah, Fla.*

Ask your insurance agent about "loss of business" or "loss of income" coverage; it may be expensive, however, depending on your line of business or location. Another possible—and costly—option is to install a generator to make your own electricity during a temporary outage. Check first with your local zoning commission and power company to avoid any permit or equipment problems.

Otherwise, as you



ILLUSTRATION: MARTHA VAUGHAN

have discovered, you're essentially out of luck. In the occasional "act of God" mishaps—as opposed to negligence or chronic service failures—utilities do not compensate customers for losses (whether it's food in your refrigerator or files in your computer), and the state regulatory agency is not obliged to help.

"Mistakes happen. While we have the most reliable utility system in the world, ordinary malfunctions will occur," says Charles Acquard, executive director of the National Association of State Utility Consumer Advocates (NASUCA) in Washington, D.C.; (202) 727-3908. "For ordinary blips, [consumers] don't get anything."

NASUCA's member organizations most often get involved in state-level rate-setting disputes, fighting proposed price increases for energy or telephone services. Service reliability is rarely an issue, Acquard says, and it would quickly get regulators' attention if it became a problem. He adds that regulators are most likely to get involved in situations where uninterrupted electrical service is a matter of life and death—at hospitals, for instance—rather than inconvenience.

If you're unhappy with the company providing your electricity, however, you may soon be able to switch. Legislation to deregulate the electric-utility industry is pending before Congress, and it may ultimately result in local competition among electric companies.

## GETTING STARTED

### Women Entrepreneurs

I am interested in marketing my artwork for greeting cards, note pads, or letterheads. Where can I find organizations or venture capitalists that concentrate on helping women who are trying to start businesses?

*L.N., Plattsmouth, Neb.*

In 1995 the National Association of Women Business Owners and Wells Fargo Bank established the first nationwide private loan fund specifically targeted to women business owners.

To qualify, an applicant must have good personal and business credit histories, two years of experience in her field, and an established bank account for business. For more information, contact the association in Silver Spring, Md., at (301) 608-2590 or Wells Fargo at 1-888-767-2444.

A similar alliance to help finance small firms owned by women was announced in

March by Women Incorporated, a business women's association based in Sacramento, Calif., and Bank of America; call 1-800-930-3993 for information.

Help is also available from the Small Business Administration in Washington, which runs the Office of Women's Business Ownership and the Office of Minority Enterprise Development. The SBA also has 10 regional offices around the country, which in turn operate numerous local business information centers that offer free training and other help to start-up companies. You can find information on these programs and local centers at the SBA's Internet site, [www.sba.gov](http://www.sba.gov); or by calling the SBA Answer Desk at 1-800-827-5722.

### Local Delivery

I live in a small, rural community near three large metropolitan areas, all of which are served by large package-delivery companies. I see a need locally for a small firm providing package-delivery, messenger, and courier services. How

would I start this kind of business?

*W.B., Hillsboro, Ohio*

Try the Messenger Courier Association of the Americas in Washington, D.C.; (202) 785-3298. Keep in mind, however, that the organization's focus is more on helping established messenger and courier businesses improve their management and operations than on start-ups.

## HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Or transmit your question to our CompuServe address: 76436.1735. Be sure to include your address and telephone number.

Because of the high volume of letters, we can answer only those that are chosen for publication. Questions may be condensed, and writers will be identified only by initials and city.



## MAIL-ORDER MARKETING

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We recently started a mail-order business offering inexpensive general merchandise.

While we were setting up the business, we heard about a new mail-order rule issued by the Federal Trade Commission. What are the general rules for a mail-order business? And where can we obtain copies of the regulations?

T.O., Dumont, N.J.

The Mail or Telephone Order Merchandise Rule was adopted by the FTC in 1974 and is updated periodically, most recently in cooperation with the New York City-based Direct Marketing Association (212-768-7277). In general, the rule requires direct-marketing firms to ship an order within 30 days or to get the customer's consent for delayed shipment; violations are punishable by fines of up to \$10,000.

The FTC publishes a free business guide to the rule. You can order a paper copy from the FTC's public reference office at

(202) 326-2222 (ask for the mail-order rule), or you can view the guide on the FTC's Internet site: [www.ftc.gov](http://www.ftc.gov).

The FTC enforces a variety of federal consumer-protection laws, but the agency

intendent of Documents, Mail Stop SSOM, Washington, D.C. 20402. The manual is also available on computer disc for \$55 from Window Book Inc. of Cambridge, Mass., (1-800-370-2410) or for \$49 from Global Village Publishing in Alexandria, Va., (1-800-394-4874).

To provide better service to small and medium-sized businesses that are commercial mailers, the Postal Service has set up postal business centers in most major metropolitan areas. The centers offer free information on how to prepare mailings that qualify for the lowest rate (bar codes and address placement are important details), and they provide free classes on mail preparation and even on-site mail-room training.

The centers also can match your computerized mailing list with the Postal Service's standardized mailing list to weed out incorrect or non-existent addresses. To find the center nearest you, contact the Postal Service's National Call Center (1-800-222-1811) or look in the business section of the agency's Internet site: [www.usps.gov](http://www.usps.gov).



that direct mailers deal with most often is the U.S. Postal Service. Its *Domestic Mail Manual*, a 3-inch-thick tome of rules and regulations, is an essential investment for any mail-order business.

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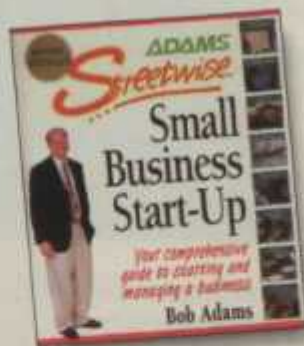
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# Editorial

## Organized Labor's Growing Militancy

**B**usiness won the 1996 election battle to keep control of Congress in the hands of pro-enterprise forces, but the war goes on.

The AFL-CIO, which spent massively and worked intensively in an attempt to restore a Democratic majority on Capitol Hill, continues its relentless efforts to control the nation's legislative agenda.

As the cover story in this month's issue explains, the labor strategy is evolving in two closely connected areas—membership and politics.

The AFL-CIO, which traditionally has left recruiting to its constituent unions, has launched an unprecedented, \$30 million organizing drive to replenish the dwindling ranks of union members and thereby rebuild the political clout of the national parent.

John J. Sweeney, the president of the labor federation, has stated his goal in stark terms: "Reclaim our political power and use it to reclaim our country."

That statement comes from the leader of an organization that has opposed a balanced budget, job-creating tax relief, welfare reform, international trade expansion, and modernization of labor law while calling for higher taxes and more government involvement—such as a federal mandate for employer financing of health insurance—in business.

Those labor stands on critical legislative issues should alert small businesses in particular to the realities of the labor campaign. It is not solely a battle between Big Labor and Big Business or between unions and management of the individual companies they have organized or targeted for organization. The outcome will affect every company, every employer, every employee. The labor agenda works against economic growth and on behalf of



*Health care is among the industries being targeted by union organizers.*

big government, making it a matter of broad national concern.

If the AFL-CIO succeeds in enhancing its political power by expanding union membership, any hope of achieving fiscal discipline, tax and regulatory relief, and effective international trade policies—all essential to continuing economic health—would vanish.

Organized labor's schedule for imposing its agenda extends from the current Congress to the 1998 congressional elections and then to the next presidential election. It is committing more money and more resources than it ever has to achieving its legislative and political goals.

The business response should be just as aggressive. But while the AFL-CIO can finance its activities with dues and coercive levies on union members, business has no similar mechanism for financing the necessary counterattack—nor does it want one.

Individual entrepreneurs need to recognize the danger that the intensified militancy of organized labor poses to the

general economy, and they need to join the battle.

They can let their members of Congress know how they expect them to vote on bills affecting business. They can support—with money and personal involvement—organizations committed to maintaining the free-enterprise system. They can use community resources to explain what the restoration of labor's political power would mean in terms of jobs, taxes, and increased government intrusion. They can work to nominate political candidates sympathetic to business goals.

Organized labor is committing significant resources to its campaign to turn back the clock. Business can do no less to prepare the nation to move into a new century. **ED**



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# The Business Advocate

SUPPLEMENT TO **Nation's Business** JUNE 1997



Published By  
**U.S. Chamber of Commerce**



**Michael S. Starnes, 1997-98 U.S. Chamber chairman, addressing a recent news conference on Capitol Hill, urged Congress to spend the money in the federal transportation trust funds on infrastructure repairs and improvements that are needed nationwide.**

## Chamber Urges Transportation Improvements

# Full Funding Backed

**T**he U.S. Chamber of Commerce is urging members of Congress to specify in the 1998 federal budget that all the money accumulated in the federal transportation trust funds be spent on improvements to transportation infrastructure.

"Not fully committing the transportation trust funds to maintain and improve our infrastructure will lead to an economic dead

end," said Michael S. Starnes, 1997-98 chairman of the Chamber, at a recent news conference on Capitol Hill. "Our transportation infrastructure is the foundation of the national economy, but it is not being adequately maintained."

The Clinton administration proposed in its 1998 budget plan to spend only \$22 billion a year from the trust funds on transportation

*Continued on Page 6A*



## ■ Technology

# Poll Responses Can Be Filed Using Internet

**M**embers of the U.S. Chamber of Commerce can now respond to The Business Ballot, the bimonthly poll of Chamber members, via the Internet.

Previously, only the mail option was available.

To respond to the member poll via the Internet, go to the members-only section of the Chamber's World Wide Web site. The address is [www.uschamber.org/member/password.html](http://www.uschamber.org/member/password.html). Use your member identification number to get into this area of the Chamber site. (If you don't know your Chamber ID number, call 1-800-649-9719.)

The part of the Chamber site open to members and nonmembers alike is at [www.uschamber.org](http://www.uschamber.org). It contains information on Chamber activities, the organization's position on legislative issues, and details about the business federation's programs and services. Much of the information is updated daily.

In addition to responding to the Business Ballot, in the members-only section Chamber members can view in-depth information on the federation's policies and issues; read articles from *The Business Advocate*; find the addresses, telephone numbers, committee assignments, and e-mail addresses for their representative and senators in the Chamber's 1997 Congressional Handbook; and view announcements of upcoming Chamber events.

Also included on the Chamber's home page is information about the Blue Chip Enterprise Initiative, a program that honors small-business people who have surmounted significant challenges on their path to success.

The initiative, which is kicking off its eighth year, is sponsored by MassMutual—The Blue Chip Company, the U.S. Chamber, *Nation's Business*, and "First Business." (For program and application details, see Page 37 in the June *Nation's Business*.)

You can reach the Blue Chip information directly by going to [www.nationsbusiness.org/bluechip.html](http://www.nationsbusiness.org/bluechip.html). The site contains profiles of the four 1997 national Blue Chip honorees as well as an electronic-mail address and an 800 number for more information on the program.

## ■ Tax Reform



Martin A. Regalia, the U.S. Chamber's vice president and chief economist, is interviewed at the Capitol by a television reporter on the need for reform of the federal tax system. The interview took place in conjunction with an April 15 rally held by the House Republican leadership, including Speaker Newt Gingrich of Georgia, Majority Leader Richard K. Armey of Texas, and Majority Whip Tom DeLay of Texas.

## ■ Town Meeting

# Climate Conference Slated

**T**he U.S. Chamber of Commerce will host a town meeting June 9 via satellite on the Clinton administration's plans to sign a United Nations agreement on reducing the use of fossil fuels. Business leaders believe compliance with the agreement's terms could result in drastic job losses and slower economic growth.

The meeting will air from 2 to 3 p.m. Eastern time from the Chamber's Washington, D.C., headquarters. (For more information about the meeting or to locate the downlink site nearest you, call 202-463-5670.)

Meeting participants are expected to include Rep. John D. Dingell, D-Mich., Ohio's Republican Gov. George V. Voinovich, and Dean Kleckner, president of the American Farm Bureau Federation.

The Chamber is part of a coalition of business, labor, agriculture, and public-policy organizations that are urging the administration not to sign the agreement on global climate change, which would be legally binding.

The agreement, in the form of a proto-

col, would be part of a 1992 U.N. treaty signed by the world's largest industrialized nations that called for voluntary reductions in the use of fossil fuels, including gasoline and oil. The reductions are needed to cut greenhouse gases, which some scientists say cause changes in the Earth's climate; other scientists say there is no conclusive link between greenhouse gases and global climate changes.

The agreement is expected to be signed in December at a meeting in Kyoto, Japan. Signatory countries would have to abide by targets and timetables for reducing the use of fossil fuels to 1990 levels, probably by 2010; the date has yet to be finalized.

The Chamber and other groups say that such reductions, which would probably be attained in the United States through the imposition of a broad-based energy tax aimed at discouraging fuel use, could result in the loss of 600,000 U.S. jobs annually and reduce the gross domestic product by 2 to 3 percent by 2010.





## Business Victory

# Chamber Helps Sink Labor Order

In a victory for business, the Clinton administration recently backed away from plans to issue an executive order mandating that federal agencies consider awarding federally funded construction projects to unionized firms.

The U.S. Chamber of Commerce led business in opposing the proposed order, which would have required that government agencies consider entering into project-labor agreements with contractors working on construction projects that receive federal funds.

Such agreements set the wages, benefits, and working conditions a contractor will provide its workers. The agreements also usually require workers, including nonunion employees, to visit a union hiring hall before being placed on a job.

Instead of issuing an executive order, the White House now plans to issue the directive in the form of a memorandum of understanding. An executive order carries the force of law and is in effect



U.S. Chamber Senior Vice President Bruce Josten testified recently before the Senate Labor and Human Resources Committee about concerns with President Clinton's proposed executive order that would have in effect required union-only contracts for federally funded construction projects.

until a president revokes or modifies it. A memorandum expires when the issuing president leaves office.

Bruce Josten, the Chamber's senior vice president for membership policy, testified April 30 before the Senate Labor and Human Resources Com-

mittee on the effects of project-labor agreements.

Said Josten: "[They] will suppress competition and drive the price of federally funded construction projects sky-high." He cited a study by the Employment Policy Foundation, a Washington, D.C., public-policy organization, that said the agreements would cost taxpayers an extra \$4.8 billion a year.

Contractors on federally funded construction jobs already must abide by the Davis-Bacon Act. The law requires workers to be paid at least the prevailing wage—usually the union journeyman's wage—in an area.

"The administration should work to require that all government contracts be awarded to the lowest bidder, not the biggest campaign contributor," Josten told the labor panel, referring to the AFL-CIO's support in 1996 for Clinton's re-election and the organization's \$35 million effort to unseat pro-business members of Congress.

## Big Win

# OSHA Policy Negated

The U.S. Chamber of Commerce scored a big legal victory for business recently with a court ruling that prevents multiple penalties on a company for violating a single workplace safety or health rule.

The Occupational Safety and Health Administration, which is part of the U.S. Department of Labor, can fine firms for violations of the 1970 Occupational Safety and Health Act's general-duty clause. The clause says each employer should have a safe and healthful workplace.

But since the early 1990s, OSHA has based its penalties on the number of workers exposed to a workplace hazard that resulted in a general-duty-clause violation. This penalty practice was implemented even though Congress provided



NCLC's Bokart

in the law for a maximum fine of \$70,000 for a violation of the general-duty clause.

The Chamber's law firm, the National Chamber Litigation Center (NCLC), stated that this policy was "egregious" and challenged its legality in *Secretary of Labor vs. Arcadian Corporation*, a case before the U.S. Court of

Appeals for the 5th Circuit, in New Orleans.

The 5th Circuit responded with a unanimous decision that "the General Duty Clause of the OSHA Act unambiguously provides that the violative [hazardous] condition, not the employee, is the unit of prosecution."

The Court of Appeals' ruling affirmed a September 1995 decision by the

Occupational Safety and Health Review Commission that struck down the penalty policy.

The commission is an independent, presidentially appointed entity that adjudicates disputes with OSHA. In its ruling, the commission said that the safety and health act does not authorize assessment of multiple penalties for a single violation of the general-duty clause.

The commission had ruled this way on two cases. In one, OSHA fined Arcadian Corp. for a 1992 explosion at the firm's Lake Charles, La., fertilizer plant. The agency imposed a \$50,000 penalty on the company for violating the general-duty clause. The agency then multiplied the penalty by the 87 employees exposed to the explosion, for a fine of \$4.35 million.

Said Stephen A. Bokart, executive vice president of the NCLC: "Once again, the courts have told the Labor Department that it cannot ignore the clearly expressed intent of Congress in developing enforcement policies."



## ■ Commerce



U.S. Commerce Secretary William Daley spoke twice recently to business leaders at the U.S. Chamber of Commerce. Daley discussed trade between the U.S. and India with the Chamber's U.S.-India Business Council and talked about trade issues involving South America and Central America with the Association of American Chambers of Commerce in Latin America.

PHOTO: GARY HARRISON

## ■ Product Liability

# Bill Nears Senate Vote

The U.S. Chamber of Commerce is urging the Senate to pass a measure that would replace the current patchwork of 50 state product-liability laws with a single federal statute.

The Chamber has been doggedly pursuing this goal for more than 13 years.

The measure pending in the Senate, the Product-Liability Reform Act, is sponsored by Majority Leader Trent Lott of Mississippi and by Sens. Slade Gorton, R-Wash., John Ashcroft, R-Mo., John McCain, R-Ariz., and Spencer Abraham, R-Mich.

The Senate Commerce, Science and Transportation Committee approved the bill May 1, setting the stage for an expected June floor vote.

In establishing a uniform federal law, the legislation would:

- Limit the liability of retailers and wholesalers for the sale of defective products.

- Limit punitive damages—those assessed beyond the amount awarded to compensate victims for lost wages, medical costs, and pain and suffering—to the greater of \$250,000 or two times the amount of compensatory damages. For

companies with fewer than 25 employees and for individuals with a net worth of \$500,000 or less, the cap on punitive damages would be the lesser of \$250,000 or two times the compensatory damages.



Sen. Slade Gorton, R-Wash., is the main sponsor of a product-liability bill.

- Limit, for each defendant, the liability for noneconomic damages—pain and suffering—to the percentage of responsibility for harm to a victim assigned to each defendant.

- Place a two-year statute of limitations on bringing a product-liability suit starting at the time the victim discovered, or should have discovered, the injury. However, no suit could be consid-

ered more than 18 years after the product was first delivered to a purchaser.

- Hold victims responsible if their use of drugs or alcohol was a major contributing factor in their injuries.

A bipartisan product-liability bill was approved in March 1996 by votes of 59-40 in the Senate and 259-158 in the House, but President Clinton vetoed the measure in May 1996.

*Ask your senators to support the Product-Liability Reform Act. Dial the Capitol switchboard at (202) 224-3121.*

## ■ Workplace

# TEAM Measure At Key Stage

The Senate is being urged by the U.S. Chamber of Commerce to take quick action on a bill that would allow employers to establish employee teams to examine various workplace issues.



Sen. Jim Jeffords, R-Vt.

The measure, sponsored by Sen. Jim M. Jeffords, R-Vt., and titled the Teamwork for Employees and Management Act, is identical to the legislation approved by the Senate last year and by the House in 1995. President Clinton vetoed that legislation last year.

Jeffords' bill, S. 295, and a similar House measure, H.R. 634, sponsored by Rep. Harris W. Fawell, R-Ill., would amend the 1935 National Labor Relations Act to let nonunion employers establish self-directed employee teams to address various workplace issues important to employees and managers.

The House and Senate measures were introduced in response to interpretations of the 1935 labor law made by the National Labor Relations Board, which administers the labor-relations statute, and by the federal courts.

The NLRB and the courts have ruled in recent years that the 1935 law makes it illegal for employee teams or committees in nonunion businesses to discuss issues such as scheduling, work assignments, health and safety matters, training, job descriptions, and work rules. The TEAM Act would overturn those rulings.

Senate action on the Jeffords bill could come as early as mid-June. Supporters of the measure are expecting a filibuster on the legislation. Proponents of the bill would need 60 votes to end a filibuster and to force a floor vote on the measure.

Defeat of the TEAM Act is a top priority of organized labor.

*Strong, immediate grass-roots response by business is essential to win approval of the legislation. Dial the Capitol switchboard at (202) 224-3121 to reach senators and representatives. Urge senators to vote for S. 295 and representatives to co-sponsor H.R. 634.*



## ■ Action Needed

# China's Trade Status In Jeopardy

The U.S. Chamber of Commerce is continuing to outline for Congress the importance to U.S. businesses of maintaining normal trade relations with the People's Republic of China.

The Chamber is expecting a battle soon in Congress over whether most-favored-nation trade status for China should be renewed. The trade status is routinely granted to most of the nations with which the U.S. trades and does not confer special trade privileges. Without MFN status, however, a country's exports to America could be subject to U.S. tariff rates of more than 50 percent.

The Chamber is urging lawmakers not to block or delay extension of China's MFN status. President Clinton is expected to support MFN renewal before the statutory deadline of June 3. The renewal would take effect July 1, when China's current MFN trade status expires.

The Chamber is strongly advocating that MFN status for China be extended without conditions and is reiterating its support for permanent extension of the trade status.

Some members of Congress have pro-



posed that renewal of MFN status for China be delayed or that it be granted only for a short term—six months or less—until the impact of the transfer of Hong Kong to China can be evaluated. Britain's island colony is being turned over to China on July 1.

Other lawmakers are threatening to

deny, restrict, or suspend China's trade status on the basis of human-rights abuses in China and over concerns about China's treatment of Hong Kong.

Although authority for granting—and renewing—MFN status to countries rests with the president, Congress can pass legislation to deny or restrict the trade status. Lawmakers have until Aug. 29—60 days from the trade-status expiration date—to deny MFN.

While the Chamber also is concerned about China's human-rights abuses and the Hong Kong issue, it contends that denying or restricting the country's trade status would

hurt the forces in China most sympathetic to political and trade reforms and would hurt U.S. economic interests.

*Call your lawmakers and urge them to support unconditional MFN trade status for China. Dial the Capitol switchboard at (202) 224-3121.*

## ■ International Award



U.S. Chamber of Commerce President Richard L. Lesher, right, receives the Patriot of the Expatriates Award from Howard A. Campbell, chairman of the American Business Council of the Gulf Countries. Lesher was honored recently by the council, which represents more than 700 U.S. firms doing business in the Middle East, for his "outstanding contributions to U.S. interests in the Gulf."

## ■ How To Help

# Flood Aid Needed

Members of the U.S. Chamber of Commerce who would like to help small businesses damaged by the recent flooding in North Dakota may do so by contributing to the Grand Forks Region Business Recovery Fund.

The fund was established by the Greater North Dakota Association—the state's chamber of commerce—in conjunction with the Grand Forks Chamber of Commerce. It will assist the Grand Forks area's 2,000 businesses that were damaged or destroyed by the flooding of the Red River. The Grand Forks chamber was also damaged.

To contribute to the relief effort, mail checks payable to the Business Recovery Fund to the Greater North Dakota Association, P.O. Box 2639, Bismarck, N.D. 58502.

Donations can be designated for use by small businesses in the Grand Forks region or by the Grand Forks Chamber of Commerce.



## ■ Transportation

# Money In Funds Needed For Roads

*Continued from Page 1A*

needs through 2002. The accounts at issue are the highway, airport and airway, inland-waterways, and harbor-maintenance trust funds.

The four trust funds together collect more than \$30 billion each year through such means as a tax on motor fuels, an airline facility charge commonly known as the ticket tax, and aviation and waterways fuel and cargo excise taxes.

While some money in the trust funds has been spent for transportation improvements, Congress in the past has refused to appropriate all the money collected despite the need for infrastructure repairs. The surpluses have served to mask the size of the federal budget deficit.

While at press time Congress had yet to pass a 1998 budget bill, it was not expected to call for using all the money in the trust funds for transportation.

Groups that joined the Chamber at the Capitol Hill press conference included the National Governors' Association, organized labor, state and local governments, and other business organizations.

Known collectively as the Coalition for TRUST—Transportation Revenues



U.S. Chamber Senior Vice President Bruce Josten, left, and Gov. Edward T. Schafer, R-N.D., discuss legislative efforts to release money in the federal transportation trust funds to the states.

Used Solely for Transportation—the organizations say that the revenues collected for the trust funds can support funding levels of \$26 billion a year for highways and \$5.2 billion a year for mass-transit programs through 2002.

The U.S. Department of Transportation has identified more than \$450 billion

in capital needs for airports, highways, mass transit, and waterways.

"Congress must keep its commitment to the American people to use their transportation taxes to fix transportation problems," said the Chamber's Starnes, who is chairman, president, and CEO of M.S. Carriers, a trucking company based in Memphis, Tenn.

In a related matter, the House was expected to vote in May on legislation sponsored by Rep. Bud

Shuster, R-Pa., that would remove the transportation trust funds from the federal budget.

The measure would prohibit the use of money in the federal trust funds for any purposes other than those for which the taxes were collected.

(See the related story on Page 7A.)

## ■ Constitutional Amendment

# Tax-Limitation Measure Fails

A business-backed measure that would have required a two-thirds majority of Congress to raise taxes was defeated in the House in April.

Despite evidence that the bill would promote a healthier economy and inject fiscal discipline into the federal budget process, 190 House lawmakers voted against it.

The vote on the tax-limitation amendment to the Constitution was 233-190 in favor of the measure, but constitutional amendments require a two-thirds vote of Congress to be sent on to the states for ratification. Thirty-eight of the 50 states must approve amendments to the Constitution. (See how your representative voted on the tax-limitation amendment on Pages 8A and 9A.)

House proponents of the amendment, which was strongly backed by the U.S. Chamber of Commerce, needed 282 votes. Senate approval would have

required the support of 67 of the 100 senators.

The House voted on April 15, the tax-filing deadline for millions of Americans.

In urging approval of the tax-limitation amendment, Bruce Josten, the Chamber's senior vice president for membership policy, said in a letter to House lawmakers: "The [amendment] forces Congress and the president to focus more carefully on eliminating federal spending to balance the federal budget."

He added that state supermajority vote requirements for raising taxes have proved effective in limiting spending growth.

According to the Heritage Foundation, a public-policy organization in Washington, D.C., and the Congressional Research Service, per-capita economic-



Martin A. Regalia (at the dais), vice president and chief economist for the U.S. Chamber of Commerce, urged Congress to cut taxes, reform the tax system, and pass a tax-limitation amendment to the Constitution at a rally in front of the White House April 15.

growth rates from 1980 to 1992 averaged 8 percentage points higher in states with tax-limitation laws than in states without such laws, and rates of government spending averaged 9 percentage points lower in tax-limitation states than in states without such limits.



# GAIN UPDATE

GRASSROOTS ACTION  
INFORMATION  
NETWORK

U.S. Chamber of Commerce Federation

## Meet Transportation Act's Deadline, Chamber Urges

### *Congress Asked To Reauthorize And Improve Highway, Mass-Transit Law*

Congress should meet the 1997 statutory deadline for reauthorizing the nation's major transportation law and correct some of the problems with the law when it does so, says the U.S. Chamber of Commerce.

Congress must rewrite the funding law for highway and mass transit, the 1991 Intermodal Surface Transportation Efficiency Act (ISTEA), by Sept. 30, 1997, or there will be no federal money for transportation projects for the fiscal year that begins Oct. 1.

In addition, the Chamber is pushing Congress to streamline the act to provide greater flexibility for state and local governments in determining how and where funds will be spent.

"Some of the highway programs and policies created under ISTEA have resulted in serious short- and long-range problems that should be addressed by Congress when it rewrites the program this year," says Sally Jefferson, a domestic-policy manager for the U.S. Chamber.

While the federal government provides funding for the upkeep of approximately 950,000 miles of roads, state and local governments own almost all of the 4 million miles of public roads in the United States, including the Interstate Highway System. The federal government owns or controls 4 percent—or about 170,000 miles—of all roads, primarily those in national forests and parks.

ISTEA provides financial assistance to states for the construction and repair of some of the nation's most important roads. The 1991 act authorized \$157 billion to be spent over six years in five broad program areas: highways, mass transit, highway safety, truck safety, and transportation research.

It made many nonhighway projects, such as programs to protect wetlands and to preserve historic sites, eligible for

highway funds. In addition, the measure made it easier to transfer funds typically spent on highways to mass-transit projects.

### Programs Covered By The Law

Among ISTEA's core programs are:

■ The National Highway System (NHS). The law established the 161,000-mile system and provided substantial funding to improve the roads in it. The NHS includes the 45,000-mile Interstate Highway System, urban and rural principal arterial

roads, the defense strategic highway network, and strategic highway connectors. While the NHS accounts for only 4 percent of total U.S. road mileage, it carries 40 percent of all traffic, 75 percent of commercial truck traffic, and 80 percent of tourist traffic.

In addition, ISTEA provided separate funding programs to complete the interstate system, to reimburse states for the costs of interstate routes that were constructed with state funds, and to rehabilitate, restore, resurface, and reconstruct the interstate system.

■ The Surface Transportation Program (STP). This program consists of block grants for use by states and localities to repair roads and bridges and to build mass-transit capital projects. ISTEA requires that 10 percent of STP funds be reserved for safety construction projects and another 10 percent for transportation-enhancement activities, such as historic preservation and archaeological research. States are required to allocate another portion of STP funds to metropolitan areas with populations of more than 200,000.

■ The Congestion Mitigation and Air Quality Improvement (CMAQ) program. The program directs funds to eligible transportation projects in areas that do not meet Clean Air Act standards.

**"Some of the highway programs and policies created under ISTEA have resulted in serious short- and long-range problems that should be addressed by Congress..."**

—Sally Jefferson,  
U.S. Chamber Of Commerce

### How You Can Join GAIN

**T**he Grassroots Action Information Network—GAIN—enhances the ability of business people to influence government decisions that affect their enterprises. Through the network, U.S. Chamber specialists on legislative and regulatory issues provide activist business people with the timely information they need to urge their members of Congress to cast pro-enterprise votes.

For more information on how to become a member of this network, call (202) 463-5604.

### Restrictions Complicate Administration

ISTEA created 13 major funding categories—including four categories intended to provide greater equity in the distribution of highway funds among the states—and a variety of smaller funding categories. The legislation imposed a complicated array of intracategory funding restrictions.

The 1991 law was intended to allow greater flexibility in the use of federal highway funds and to give state officials, who

*Continued on Page 10A*



## GAIN UPDATE

## Contact Your Representative About Tax-Limitation Vote

The U.S. Chamber of Commerce is asking its members to contact their representatives about the recent House vote on whether to limit Congress' ability to raise taxes.

The proposal was to amend the Constitution to require a two-thirds vote of each house of Congress to raise taxes. While a

majority of representatives voted for the measure—the April 15 vote was 233-190—the legislation was nonetheless defeated because it failed to garner the two-thirds approval required to pass constitutional amendments. (See the related story on Page 6A.) Representatives are listed by district within their states.

## Voted YES

## ALABAMA

- 1 Callahan (R)
- 2 Everett (R)
- 3 Riley (R)
- 4 Aderholt (R)
- 5 Cramer (D)
- 6 Bachus (R)

## ALASKA

- AL Young (R)

## ARIZONA

- 1 Salmon (R)
- 3 Stump (R)
- 4 Shadegg (R)
- 5 Kolbe (R)
- 6 Hayworth (R)

## ARKANSAS

- 1 Berry (D)
- 3 Hutchinson (R)
- 4 Dickey (R)

## CALIFORNIA

- 1 Riggs (R)
- 2 Herger (R)
- 4 Doolittle (R)
- 11 Pombo (R)
- 18 Condit (D)
- 19 Radanovich (R)
- 21 Thomas (R)
- 23 Gallegly (R)
- 24 Sherman (D)
- 25 McKeon (R)
- 27 Rogan (R)
- 28 Dreier (R)
- 36 Harman (D)
- 38 Horn (R)
- 39 Royce (R)
- 41 Kim (R)
- 43 Calvert (R)
- 44 Bono (R)
- 45 Rohrabacher (R)
- 46 Sanchez (D)
- 47 Cox (R)
- 48 Packard (R)
- 49 Bilbray (R)
- 51 Cunningham (R)
- 52 Hunter (R)

## COLORADO

- 3 McInnis (R)
- 4 Schaffer (R)
- 5 Hefley (R)
- 6 Schaefer (R)

## CONNECTICUT

- 4 Shays (R)
- 5 Maloney (D)

## DELAWARE

- AL Castle (R)

## FLORIDA

- 1 Scarborough (R)
- 4 Fowler (R)
- 6 Stearns (R)
- 7 Mica (R)
- 8 McCollum (R)
- 9 Bilirakis (R)
- 12 Canady (R)
- 13 Miller (R)
- 14 Goss (R)
- 15 Weldon (R)
- 16 Foley (R)
- 18 Ros-Lehtinen (R)
- 21 Diaz-Balart (R)

## GEORGIA

- 1 Kingston (R)
- 3 Collins (R)
- 7 Barr (R)
- 8 Chambliss (R)
- 9 Deal (R)
- 10 Norwood (R)
- 11 Linder (R)

## IDAHO

- 1 Chenoweth (R)
- 2 Crapo (R)

## ILLINOIS

- 6 Hyde (R)
- 8 Crane (R)
- 11 Weller (R)
- 13 Fawell (R)
- 14 Hastert (R)
- 15 Ewing (R)
- 16 Manzullo (R)
- 18 LaHood (R)
- 20 Shimkus (R)

## INDIANA

- 2 McIntosh (R)
- 3 Roemer (D)
- 4 Souder (R)
- 5 Buyer (R)
- 6 Burton (R)
- 7 Pease (R)

## IOWA

- 1 Leach (R)
- 2 Nussle (R)

## 4 Ganske (R)

- 5 Latham (R)

## KANSAS

- 1 Moran (R)
- 2 Ryun (R)
- 3 Snowbarger (R)
- 4 Tiahrt (R)

## KENTUCKY

- 1 Whitfield (R)
- 2 Lewis (R)
- 3 Northup (R)
- 4 Bunning (R)
- 5 Rogers (R)

## LOUISIANA

- 1 Livingston (R)
- 3 Tauzin (R)
- 4 McCrery (R)
- 5 Cooksey (R)
- 6 Baker (R)
- 7 John (D)

## MARYLAND

- 2 Ehrlich (R)
- 6 Bartlett (R)

## MICHIGAN

- 2 Hoekstra (R)
- 3 Ehlers (R)
- 4 Camp (R)
- 5 Barcia (D)
- 6 Upton (R)
- 7 Smith (R)
- 11 Knollenberg (R)

## MINNESOTA

- 1 Gutknecht (R)
- 3 Ramstad (R)
- 7 Peterson (D)

## MISSISSIPPI

- 1 Wicker (R)
- 3 Pickering (R)
- 4 Parker (R)
- 5 Taylor (D)

## MISSOURI

- 2 Talent (R)
- 4 Skelton (D)
- 6 Danner (D)
- 7 Blunt (R)
- 8 Emerson (R)
- 9 Hulshof (R)

## NEBRASKA

- 2 Christensen (R)
- 3 Barrett (R)

## NEVADA

- 1 Ensign (R)
- 2 Gibbons (R)

## NEW HAMPSHIRE

- 1 Sununu (R)
- 2 Bass (R)

## NEW JERSEY

- 1 Andrews (D)
- 2 LoBiondo (R)
- 3 Saxton (R)
- 4 Smith (R)
- 6 Pallone (D)
- 7 Franks (R)
- 11 Frelinghuysen (R)
- 12 Pappas (R)

## NEW MEXICO

- 2 Skeen (R)

## NEW YORK

- 1 Forbes (R)
- 2 Lazio (R)
- 3 King (R)
- 4 McCarthy (D)
- 13 Molinari (R)
- 19 Kelly (R)
- 20 Gilman (R)
- 22 Solomon (R)
- 24 McHugh (R)
- 27 Paxon (R)
- 30 Quinn (R)

## NORTH CAROLINA

- 2 Etheridge (D)
- 3 Jones (R)
- 5 Burr (R)
- 6 Coble (R)
- 7 McIntyre (D)
- 9 Myrick (R)
- 10 Ballenger (R)
- 11 Taylor (R)

## OHIO

- 1 Chabot (R)
- 2 Portman (R)
- 4 Oxley (R)
- 7 Hobson (R)
- 8 Boehner (R)
- 12 Kasich (R)
- 15 Pryce (R)
- 16 Regula (R)
- 17 Traficant (D)

## 18 Ney (R)

- 19 LaTourette (R)

## OKLAHOMA

- 1 Largent (R)
- 2 Coburn (R)
- 3 Watkins (R)
- 4 Watts (R)
- 5 Istook (R)
- 6 Lucas (R)

## OREGON

- 2 Smith (R)

## PENNSYLVANIA

- 5 Peterson (R)
- 7 Weldon (R)
- 8 Greenwood (R)
- 9 Shuster (R)
- 10 McDade (R)
- 13 Fox (R)
- 16 Pitts (R)
- 17 Gekas (R)
- 19 Goodling (R)
- 21 English (R)

## SOUTH CAROLINA

- 1 Sanford (R)
- 2 Spence (R)
- 3 Graham (R)
- 4 Inglis (R)

## SOUTH DAKOTA

- AL Thune (R)

## TENNESSEE

- 1 Jenkins (R)
- 2 Duncan (R)
- 3 Wamp (R)
- 4 Hilleary (R)
- 6 Gordon (D)
- 7 Bryant (R)

## TEXAS

- 1 Sandlin (D)
- 3 Johnson, S. (R)
- 4 Hall (D)
- 5 Sessions (R)
- 6 Barton (R)
- 7 Archer (R)
- 8 Brady (R)
- 12 Granger (R)
- 13 Thornberry (R)
- 14 Paul (R)
- 19 Combest (R)
- 21 Smith (R)
- 22 DeLay (R)
- 23 Bonilla (R)



## GAIN UPDATE

26 Arney (R)  
29 Green (D)

## UTAH

1 Hansen (R)  
2 Cook (R)  
3 Cannon (R)

## VIRGINIA

5 Goode (D)  
6 Goodlatte (R)  
7 Bliley (R)  
10 Wolf (R)  
11 Davis (R)

## WASHINGTON

1 White (R)  
2 Metcalf (R)  
3 Smith, L. (R)  
4 Hastings (R)  
5 Nethercutt (R)  
8 Dunn (R)

## WISCONSIN

1 Neumann (R)  
2 Klug (R)  
6 Petri (R)  
9 Sensenbrenner (R)

## WYOMING

AL Cubin (R)

## Voted NO

## ALABAMA

7 Hilliard (D)

## ARIZONA

2 Pastor (D)

## ARKANSAS

2 Snyder (D)

## CALIFORNIA

3 Fazio (D)  
5 Matsui (D)  
6 Woolsey (D)  
7 Miller (D)  
8 Pelosi (D)  
9 Dellums (D)  
10 Tauscher (D)  
12 Lantos (D)  
13 Stark (D)  
14 Eshoo (D)  
15 Campbell (R)  
16 Lofgren (D)  
17 Farr (D)  
20 Dooley (D)  
22 Capps (D)  
26 Berman (D)  
29 Waxman (D)  
30 Becerra (D)  
31 Martinez (D)  
32 Dixon (D)  
33 Roybal-Allard (D)  
34 Torres (D)

35 Waters (D)  
37 Millender-McDonald (D)  
42 Brown (D)  
50 Filner (D)

## COLORADO

1 DeGette (D)  
2 Skaggs (D)

## CONNECTICUT

1 Kennelly (D)  
2 Gerdenson (D)  
3 DeLauro (D)  
6 Johnson (R)

## FLORIDA

2 Boyd (D)  
3 Brown (D)  
5 Thurman (D)  
10 Young (R)  
11 Davis (D)  
17 Meek (D)  
19 Wexler (D)  
20 Deutsch (D)  
22 Shaw (R)  
23 Hastings (D)

## GEORGIA

2 Bishop (D)  
4 McKinney (D)  
5 Lewis (D)

## HAWAII

1 Abercrombie (D)  
2 Mink (D)

## ILLINOIS

1 Rush (D)  
2 Jackson (D)  
3 Lipinski (D)  
4 Gutierrez (D)  
5 Blagojevich (D)  
7 Davis (D)  
9 Yates (D)  
10 Porter (R)  
17 Evans (D)  
19 Poshard (D)

## INDIANA

1 Visclosky (D)  
8 Hostettler (R)  
9 Hamilton (D)  
10 Carson (D)

## IOWA

3 Boswell (D)

## KENTUCKY

6 Baesler (D)

## LOUISIANA

2 Jefferson (D)

## MAINE

1 Allen (D)  
2 Baldacci (D)

## MARYLAND

3 Cardin (D)  
4 Wynn (D)  
5 Hoyer (D)  
7 Cummings (D)  
8 Morella (R)

## MASSACHUSETTS

1 Olver (D)  
2 Neal (D)  
3 McGovern (D)  
4 Frank (D)  
5 Meehan (D)  
6 Tierney (D)  
7 Markey (D)  
8 Kennedy (D)  
9 Moakley (D)  
10 Delahunt (D)

## MICHIGAN

1 Stupak (D)  
8 Stabenow (D)  
9 Kildee (D)  
10 Bonior (D)  
12 Levin (D)  
13 Rivers (D)  
14 Conyers (D)  
15 Kilpatrick (D)  
16 Dingell (D)

## MINNESOTA

2 Minge (D)  
4 Vento (D)  
5 Sabo (D)  
6 Luther (D)  
8 Oberstar (D)

## MISSISSIPPI

2 Thompson (D)

## MISSOURI

1 Clay (D)  
3 Gephardt (D)  
5 McCarthy (D)

## MONTANA

AL Hill (R)

## NEBRASKA

1 Bereuter (R)

## NEW JERSEY

5 Roukema (R)  
8 Pascrell (D)  
9 Rothman (D)  
13 Menendez (D)

## NEW YORK

5 Ackerman (D)  
8 Nadler (D)  
9 Schumer (D)  
11 Owens (D)  
12 Velazquez (D)  
14 Maloney (D)  
15 Rangel (D)  
16 Serrano (D)  
17 Engel (D)

21 McNulty (D)  
23 Boehlert (R)  
25 Walsh (R)  
26 Hinchey (D)  
28 Slaughter (D)  
29 LaFalce (D)  
31 Houghton (R)

## NORTH CAROLINA

1 Clayton (D)  
4 Price (D)  
8 Hefner (D)  
12 Watt (D)

## NORTH DAKOTA

AL Pomeroy (D)

## OHIO

3 Hall (D)  
5 Gillmor (R)  
6 Strickland (D)  
9 Kaptur (D)  
10 Kucinich (D)  
11 Stokes (D)  
13 Brown (D)  
14 Sawyer (D)

## OREGON

1 Furse (D)  
3 Blumenauer (D)  
4 DeFazio (D)  
5 Hooley (D)

## PENNSYLVANIA

1 Foglietta (D)  
2 Fattah (D)  
3 Borski (D)  
4 Klink (D)  
6 Holden (D)  
11 Kanjorski (D)  
12 Murtha (D)  
14 Coyne (D)  
15 McHale (D)  
18 Doyle (D)  
20 Mascara (D)

## RHODE ISLAND

1 Kennedy (D)  
2 Weygand (D)

## SOUTH CAROLINA

5 Spratt (D)  
6 Clyburn (D)

## TENNESSEE

5 Clement (D)  
8 Tanner (D)  
9 Ford (D)

## TEXAS

2 Turner (D)  
9 Lampson (D)  
10 Doggett (D)  
11 Edwards (D)  
15 Hinojosa (D)  
16 Reyes (D)  
17 Stenholm (D)

18 Jackson Lee (D)  
20 Gonzalez (D)  
24 Frost (D)  
25 Bentsen (D)  
27 Ortiz (D)  
30 Johnson, E.B. (D)

## VERMONT

AL Sanders (I)

## VIRGINIA

1 Bateman (R)  
2 Pickett (D)  
3 Scott (D)  
4 Siskiy (D)  
8 Moran (D)  
9 Boucher (D)

## WASHINGTON

6 Dicks (D)  
7 McDermott (D)  
9 Smith, A. (D)

## WEST VIRGINIA

1 Mollohan (D)  
2 Wise (D)  
3 Rahall (D)

## WISCONSIN

3 Kind (D)  
4 Kleczka (D)  
5 Barrett (D)  
7 Obey (D)  
8 Johnson (D)

## Did Not Vote

## CALIFORNIA

40 Lewis (R)

## GEORGIA

6 Gingrich (R)

## ILLINOIS

12 Costello (D)

## MARYLAND

1 Gilchrest (R)

## NEW JERSEY

10 Payne (D)

## NEW MEXICO

1 Schiff (R)  
3 Seat Vacant

## NEW YORK

6 Flake (D)  
7 Manton (D)  
10 Towns (D)  
18 Lowey (D)

## TEXAS

28 Seat Vacant



# GAIN UPDATE

*Continued from Page 7A*

administer most of the funds, greater latitude in developing transportation priorities. However, many state officials say ISTEA's numerous funding categories and restrictions have created an administrative and accounting nightmare that makes federal highway projects more costly and time-consuming.

In addition, requirements in ISTEA's CMAQ and STP programs actually prohibit state and local officials from spending some highway dollars on traditional highway-safety or -capacity projects.

Currently, the CMAQ program reserves \$1 billion per year for projects designed to reduce car travel or vehicle pollution. The STP program reserves more than \$600 million annually for transportation-enhancement activities such as preservation of historic sites, acquisition of land that has scenic value, and other nontransportation projects, such as renovating historic barns and building recreational facilities.

ISTEA has provided \$9.6 billion over six years in CMAQ and STP funds that could not be used to improve safety on dangerous roads or to expand capacity on congested routes.

Among other changes to the highway program, the Chamber wants Congress to reduce the number of funding categories and to allow state and local governments to weigh the merits of CMAQ and transportation-enhancement projects against the need for highway-safety improvements or additional highway capacity when establishing transportation priorities.

In addition, the Chamber is pushing for an increase in highway spending from the trust fund under the reauthorized ISTEA.

## Highway Spending Below Promised Level

While the 1991 law sought to boost total national investment in road and bridge improvements, subsequent acts of Congress have held actual highway spending below the level promised in ISTEA, says the Chamber's Jefferson.

Funding for the federal surface-transportation program is derived from the Highway Trust Fund, which was established by Congress in 1956 as part of legislation to construct the Interstate Highway System.

The Chamber, as a member of the broad-based business coalition Keep America Moving, supports enactment of a surface-transportation law that would require depositing all federal highway tax revenues in the Highway Trust Fund and spending all the funds on transportation infrastructure.

Originally, the interstate-highway law provided that revenues from a motor-fuel tax of 3 cents per gallon be deposited in the trust fund and distributed to the states to support interstate-highway construction and other eligible highway projects.

Today, federal highway taxes include 18.3 cents per gallon on gasoline, 24.3 cents per gallon on diesel fuel, various rates on other motor fuels, a tax on heavy vehicles, and a tax on certain truck equipment and tires.

Almost 30 percent of the taxes collected from highway users is currently deposited in accounts that cannot be used for highway

improvements such as road and bridge repairs.

In 1996, revenues from all federal highway user fees totaled \$31.5 billion, but only \$25 billion was deposited in the Highway Trust Fund, which funds both highways and mass-transit projects. The remainder was deposited in the U.S. Treasury Department's general fund to offset the federal budget deficit.

But not even all of the money in the highway account is being spent for its intended purpose. The Clinton administration, for example, proposes as part of its 1998 budget plan to spend less than \$20 billion of the \$25 billion in the Highway Trust Fund on needed road repairs and mass-transit projects. Although they have yet to work out the details of their budget, congressional lawmakers are not expected to use the full amount in the trust fund.

Currently, money from the Highway Trust Fund makes up about 45 percent of the \$39 billion spent annually on capital investment in roads and bridges nationwide. State and local governments provide the remaining funds for capital improvements and almost all of the \$47 billion invested annually in routine road maintenance and general operating expenses.

## Fund Can Support More Spending

The Highway Trust Fund could support a substantially larger federal highway program using current revenues, says the Chamber's Jefferson. The Federal Highway Administration (FHWA) indicates that the trust fund could sustain a program funded at \$26 billion per year through 2002.

The FHWA also estimates that the combined federal, state, and local investment in road and bridge improvements would have to rise by \$20 billion annually just to maintain current highway conditions over the next 20 years.

The Chamber has joined with the nation's governors and other groups in the Coalition for TRUST—Transportation Revenues Used Solely for Transportation—to urge Congress to set highway and mass-transit program funding at the maximum level that the Highway Trust Fund will support.

The coalition says a gas tax of 4.3 cents per gallon adopted in 1993 to finance general government operations should instead be spent on transportation projects. That tax is projected to take in \$35 billion by 2002.

"Those additional revenues," says the Chamber's Jefferson, "would help close the \$20 billion annual gap between investment needs and current highway expenditures."

Some members of Congress have proposed using a portion of the 4.3-cent tax to subsidize Amtrak. The Chamber opposes such a move.

Another major issue in the ISTEA reauthorization debate is the formula for distributing highway funds among states. The Chamber is not taking a position on this issue.

Under current law, motorists in some states contribute more to the Highway Trust Fund through fuel taxes than their state governments receive back in highway funds. Other states get back more in highway funds than their motorists contribute to the trust fund.





## ■ Business Outlook

# Confidence In The Economy Rebounds

**B**usiness's confidence in the economy jumped to its highest level since October 1995 in the latest poll of U.S. Chamber of Commerce members.

The Business Confidence Index, which is based on the Chamber's bimonthly Business Ballot poll, was 56.4 in April—up from 52.3 in December 1996. In October 1995, it was 56.8. (See the accompanying chart.)

(No economic-outlook poll was conducted in February.)

The Business Confidence Index is based on responses to three economic-outlook questions asked in each Business Ballot poll. The ballot also asks questions about other timely issues, such as legislation pending in Congress.

In the most recent poll, 22.7 percent of the respondents said they expected the economy to improve over the next six

## Business Confidence Index



months. That was up from the 21.3 percent who expressed optimism in December.

The percentage of respondents who believed the economy would get worse was down, with 28.5 percent expecting

economic growth to subside over the next six months, compared with 35.6 percent in December. Nearly 49 percent said they expected no change in the economy.

Respondents also were more optimistic about the outlook for their own firms in April than in December. In the April poll, 44.7 percent said they expected sales to increase over the next six months, compared with 41.2 percent in December. Just over 15 percent said they expected sales to decrease, compared with 18.7 percent in December.

On the employment front, 24.5 percent of the respondents to the April poll expected to add jobs over the next six months, compared with 21.3 percent in December. The percentage of firms that indicated they would cut jobs was down, at 9.8 percent compared with 12.8 percent in December.

## ■ Ballot Results

# Fix CPI, Says Business

**M**ore than 89 percent of the respondents to the latest Business Ballot poll of U.S. Chamber members believe that the Consumer Price Index should be updated.

The index is used to calculate a variety of data, including federal benefit payments such as Social Security, and it has been a hotly debated topic in Washington among public and private economists, many of whom say it overstates inflation.

Late last year, a panel of economists appointed by the Senate Finance Committee concluded that the CPI is overstated by 1.3 percentage points. (See the accompanying chart.)

Just 4.4 percent of the respondents to the Chamber member poll said that no adjustment should be made, and 6.5 percent were unsure.

In a question on the federal budget, nearly 83 percent of the respondents said they believe that

President Clinton's initial 1998 budget proposal—including \$98 billion in tax cuts and \$76 billion in tax increases,

mostly on business—would not encourage economic growth and job creation.

Just under 10 percent said they believe the president's proposal would stimulate the economy and job growth, and 7.4 percent were unsure of his plan's likely effect.

Respondents also voiced their opinions on who should take the lead in addressing the pending insolvency of the Medicare system, the federal health-care plan for the elderly and long-term disabled.

More than 62 percent said Congress should lead the effort to craft a solution to the woes of Medicare, which trustees of the system say will go broke early in 2001.

Almost 10 percent said President Clinton should take the lead on the issue, and 27.7 percent said the president should appoint a commission to recommend changes in the system.

Republicans in the GOP-controlled Congress have been reluctant to recommend fixes to Medicare this year after being accused by Democrats during the 1996 election campaigns of trying to "slash Medicare."

## Impact Of The Consumer Price Index



SOURCES: U.S. BUREAU OF LABOR STATISTICS AND U.S. CHAMBER OF COMMERCE



## ■ Regulation

# Chamber Seeks To Close Loophole On Mandates

**T**he U.S. Chamber of Commerce is pushing Congress to take action on legislation to protect the private sector from unfunded federal mandates.

Bills pending in the House and the Senate, sponsored by Rep. Gary Condit, D-Calif., and Sen. Spencer Abraham, R-Mich., respectively, would close a loophole in the Unfunded Mandates Reform Act of 1995 that affects the private sector.

The unfunded-mandates law requires the Congressional Budget Office (CBO) to analyze each bill approved by a House or Senate committee to determine whether the bill would impose federal mandates on state and local governments that would cost more than \$50 million annually.

If the measure exceeds that threshold, a member of Congress may then raise a



Above, Rep. Gary Condit, D-Calif., right, talks with the Chamber's Neil Trautwein, legal-affairs specialist, before a meeting of the Chamber's Regulatory Affairs Committee. Right, Sen. Spencer Abraham, R-Mich., left, discusses his Mandates Information Act with the Chamber's Stuart Hardy, center, and Scott Holman, chairman of the business federation's Regulatory Affairs Committee.



point of order against the bill. A point of order prohibits further floor action on the measure unless a majority of the

House or the Senate votes to waive the point of order.

The statute also requires the CBO to measure whether new federal mandates on the private sector exceed a cost of \$100 million annually. But the law only requires that such information be reported to the public before the bill can be approved. Proposed major private-sector mandates are not subject to the point-of-order provision.

Under the Condit and Abraham measures, known as the Mandates Information Act, the CBO would be required to estimate the impact of a bill's private-sector mandates on consumer prices, on workers' wages and employment opportunities, and on small-business hiring, expansion, and profitability.

The legislation would allow a lawmaker to call for a point-of-order vote on any federal mandate that exceeds \$100 million in annual costs to the private sector.

At a recent meeting of the U.S. Chamber's Regulatory Affairs Committee, Condit and Abraham called on business to build more grass-roots support for their legislation.

*Call your senators and representative by the end of June and ask them to support the Abraham and Condit bills. Also urge*

*them to begin consideration of the measures. They can be reached through the Capitol switchboard at (202) 224-3121.*

## ■ Nuclear Waste

# Storage-Site Bill Advances

**T**he U.S. Chamber of Commerce is turning its attention to the House of Representatives now that the Senate has approved legislation to store nuclear waste in Nevada.

The Chamber is urging the House to approve a bill designating Yucca Mountain in Nevada as a temporary storage site for waste from nuclear power plants. The Senate approved its bill April 15 by a 65-34 vote. The House was expected to vote on its bill in May.

The storage issue is of particular im-

portance to businesses, which are among the largest users of electricity. Virtually all electric utilities, the Chamber says, sell electricity generated at nuclear power plants. Those plants are quickly running out of on-site storage space for spent nuclear fuel rods.

If utilities cannot expand their on-site storage—at a cost to consumers of \$7 billion to \$8 billion, according to various estimates—or if no central storage area is approved by Congress, nuclear plants that reach storage capacity would be forced to shut down under current law.

*Ask your representative to back a bill designating Yucca Mountain as a storage site for nuclear waste. House members can be reached at (202)225-3121.*

## ■ International



Kim Dae Jung, a candidate in South Korea's upcoming presidential election, spoke recently about trade issues between the U.S. and South Korea at an International Forum meeting at the U.S. Chamber.



## ■ Congress

# Chamber, New Lawmakers Confer

The U.S. Chamber of Commerce has hosted a number of freshman members of Congress in recent weeks to listen to their legislative concerns and insights and to allow business leaders attending the forums to voice their concerns to the new members.

Featured here are some of the first-term lawmakers who met with business leaders recently at the Chamber.



Alabama Republican Rep. Bob Riley, left, is greeted by the Chamber's Lonnie Taylor, right, vice president for congressional affairs, and James Rouse, a vice president with Exxon.



Rep. Pete Sessions, R-Texas, talks about some of the issues important to the GOP freshmen during a forum at the Chamber.



Bruce Josten, right, the Chamber's senior vice president for membership policy, talks with Rep. Kenny C. Hulshof, R-Mo., president of the House GOP freshman class.



Rep. Robert B. Aderholt, R-Ala., discusses issues with business leaders at the Chamber.



Rep. Anne M. Northup, R-Ky., is among the members of the freshman class of the 105th Congress who spoke recently at the Chamber.



Rep. Chris John, D-La., right, talks with Stuart Hardy, center, the Chamber's senior manager of energy, food, and natural-resources policy, and Charles Nelson of Bunge Co.



Rep. Virgil H. Goode Jr., D-Va., addresses business leaders at a forum at the Chamber.



## ■ Business Litigation

# Cases Await Supreme Court Action

**M**edical monitoring, class-action suits, and union recognition are at issue in three recent cases in which the law-firm affiliate of the U.S. Chamber of Commerce is defending business interests.

All three cases are pending before the U.S. Supreme Court.

The Chamber's public-policy law firm, the National Chamber Litigation Center, filed friend-of-the-court briefs in the cases, which are expected to be decided before the high court's term ends July 1. Here are summaries of the cases:

### ■ Medical Monitoring

The NCLC is asking the Supreme Court to reverse a ruling that allows individuals who have been exposed to a hazardous substance but show no signs of illness to recover costs for medical monitoring.

The contested ruling was issued by the 2nd U.S. Circuit Court of Appeals, in New York City.

In the case, *Metro-North Commuter Railroad Co. vs. Buckley*, railroad worker Michael Buckley sued the commuter rail line for negligence under the Federal Employer Liability Act for his three-year exposure to insulation that contained asbestos.

The act imposes liability on railroads for injury caused by their negligence.

Although Buckley was not ill and had no symptoms related to exposure to asbestos, the Court of Appeals ruled, in effect, that he had been injured merely through exposure and therefore should be awarded damages for the costs of future medical monitoring.

In asking the Supreme Court to reject the appellate court's reasoning, the NCLC argues in its brief that "the medical community now recognizes that, while diagnostic testing makes sense for patients with symptoms of disease, such testing is generally not beneficial when applied to persons who do not have symptoms of illness."

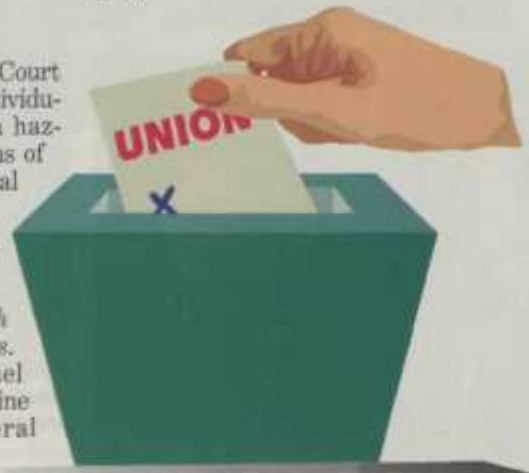
The litigation center also points out that under common law, a plaintiff must allege actual physical or emotional harm to prove negligence.

The theory adopted by the 2nd Circuit, says the NCLC, "opens the courthouse doors to literally millions of would-be claimants who have no demonstrable illness but who can allege some type of ex-

posure to some substance that may create a risk of future illness."

### ■ Class-Action Suits

In *AmChem Products, Inc., et al. vs. George Windsor, et al.*, the NCLC is urging the high court to reverse a decision by the U.S. Court of Appeals for the 3rd Circuit, in Philadelphia, that said certification of a class of plaintiffs for purposes of reaching a voluntary settlement must meet the requirements of federal rules governing class-action suits that go to trial.



Federal Rule of Civil Procedure 23 requires that certain standards be met to certify a group of plaintiffs as a class in a suit against a defendant to ensure that "classwide litigation is a procedurally fair substitute for individualized adjudication."

Among the standards are that the claims of representative class members are typical of the claims of the class as a whole and that common questions of law predominate over questions that affect individuals. In a class action, a limited number of plaintiffs bring suit on behalf of all individuals who fall under the class's characteristics.

AmChem Products and 19 other companies that manufactured asbestos negotiated a \$1.3 billion settlement with hundreds of thousands of people who were, and in the future might be, exposed to the hazardous material.

A U.S. District Court judge certified the class for purposes of the settlement. In exchange for the settlement, the companies could not be sued in any court by those exposed to the asbestos.

Currently, there are more than 300,000 asbestos cases pending before federal and state courts.

The 3rd Circuit Court of Appeals ruled that the District Court judge should have applied Federal Rule of Civil Procedure 23 in certifying the class.

But, says the NCLC in its brief to the Supreme Court, "over the past two decades, numerous District Courts certified classes for settlement purposes while expressly indicating that the class certainly, or at least possibly, could not have been certified for purposes of litigation."

The NCLC argues that voluntary settlements, such as the AmChem settlement, would fail under the 3rd Circuit's ruling because there is often some disparity of issues, injuries, causes, and defenses among the members in a class.

"Disaffected class members in many 'final' class settlements ... might try to initiate individual litigation questioning the adequacy with which their litigation interests were represented in the class settlement process," says the litigation center. That would lead to extraordinary costs for defendant companies, delays in settlements, and congested court dockets, the NCLC says.

### ■ Union Recognition

In *Allentown Mack Sales and Service, Inc. vs. National Labor Relations Board*, the NCLC is asking the Supreme Court to reverse a decision dealing with an employer's right to poll its workers on their support for a union.

The decision being contested was made by the U.S. Court of Appeals for the District of Columbia Circuit.

The appeals court upheld a ruling by the National Labor Relations Board against an Allentown, Pa., company. The NLRB ruled that the firm's poll of its employees to determine their support for a union and the firm's subsequent refusal to recognize the union were unfair labor practices under the federal National Labor Relations Act (NLRA). The union about which the workers were polled had represented them in a company where they had worked previously.

The NLRA states that it is an unfair labor practice for an employer to "interfere with, restrain, or coerce" employees

*Continued on Next Page*



# Chamber Legal Center Backs Firms In Suits

*Continued From Previous Page*

in the exercise of their statutory right to self-organize.

The statute does, however, allow an employer to withdraw recognition of a union if a majority of the employees specifically inform the employer of their opposition to the union or if the employer has a "good-faith doubt" regarding the union's majority status among the workers. Additionally, the labor relations board has recognized the employer's right to poll its workers "in a noncoercive manner" to determine their level of union support.

Seven of the company's 32 employees told company executives that they did not support the union. Several other workers said that other employees did not want the union. The firm then polled its employees to determine their support for the union. The workers voted 19-13

against the union, and the company then withdrew its recognition of the union.

The NLRB ruled that the poll was an unfair labor practice because the company did not have enough evidence that the employees opposed the union to justify the poll.

In its brief, the NCLC says that under the board's ruling "an employer ... is free to poll its employees, but only when it already knows the results of that poll."

The Chamber's law firm says the board's ruling is arbitrary and capricious and that the board lacks the statutory authority to restrict noncoercive polling.

The board, the NCLC notes, may "proscribe as 'unfair labor practices' only those actions by an employer that 'interfere with, restrain, or coerce' the self-organization rights of its employees." The board did not find that the poll of Allentown Mack employees was con-

ducted unfairly or that workers were coerced into voting against the union.

Citing the decisions of other appellate courts on similar cases, the NCLC argues that the board's polling standard "effectively outlaws polling ... by allowing an employer to conduct a poll only when it already has enough information to render any such poll superfluous."

## Associations

### New Publication

**A**ssociations that join the U.S. Chamber of Commerce can receive a new monthly newsletter on technology developments.

*Chamber Tech Watch* provides information on technology in general and on how technologies are being used successfully by associations.

The newsletter, published by the Chamber's association department, is free to associations that are Chamber members. Subscriptions for nonmembers are \$125 a year. To order, call (202) 463-5853.

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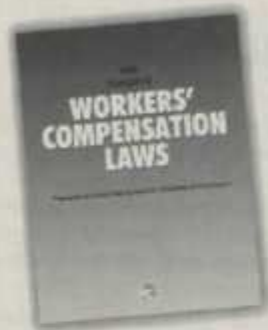
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# U.S. Chamber Member Benefits

Here are some of the most important products and services offered by the U.S. Chamber.

## Workers' Comp Laws Detailed



The 1997 *Analysis Of Workers' Compensation Laws*, which contains comprehensive information on the workers' comp laws in the 50 states, the District of Columbia, U.S. territories, and the Canadian provinces, is available from the U.S. Chamber.

The analysis also includes up-to-date information on indemnity benefit levels as well as charts on the various jurisdictions' benefits, occupational injuries and diseases covered, insurance coverage, and legal requirements under state workers' comp laws.

The publication is \$15 for U.S. Chamber members and \$25 for nonmembers. Bulk-order discounts are available. To order, write to the U.S. Chamber of Commerce, Domestic Policy Publications, 1615 H Street, N.W., Washington, D.C. 20062-2000, or call (202) 463-5509. Request Publication No. 0491.

## Annual Employee Benefits Survey

The Chamber's latest annual employee-benefits survey and related software are available separately or as a package.

The survey reports on the 1995 benefit practices and costs of a cross section of American businesses and is the most comprehensive survey of its type. It provides separate figures for salaried and hourly workers, and it gives comparative cost figures for various industry groups.

Copies of *Employee Benefits, 1996 Edition* (Publication No. 0484)

are available for \$35. To order, call 1-800-638-6582 between 9:30 a.m. and 4:30 p.m. Eastern time. In Maryland, call 1-800-352-1450.

Also available at the same numbers is the *Employee Benefits Analyzer* (Publication No. 0485), a \$95 software program that allows companies to compare their benefits with others' in the same industry, region, or size category. The program comes only on IBM-compatible disks.

The survey publication and software may be purchased together for \$115.

The Chamber is also offering *BeneTrax*, a computer program that enables firms to analyze their benefits and communicate the cost of benefits to their employees with a personalized benefits statement. The *BeneTrax* program—priced according to company size—can be ordered through the numbers listed above. The small-employer version, designed for firms with 25 or fewer workers, costs \$95.

## Guidebook On Fringe Benefits

A guide to planning, evaluating, and designing a fringe-benefits program for nonprofit organizations is available to U.S. Chamber members at a discount.

The publication, *The Tax-Exempt Organization's Guide To Fringe Benefits*, provides information on various benefit programs available to nonprofit organizations. It discusses such topics as deferred compensation, insurance plans, leave time, health plans, and pension plans.

The guide also examines the tax implications and reporting requirements for different benefits, and it cross-references each with the appropriate section of the Internal Revenue Code.

To order the guide, which costs \$79 for Chamber members and \$95 for nonmembers, send a check or money order payable to the U.S. Chamber of Commerce to Publications Fulfillment, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062-2000, or call (202) 463-5580. Ask for Publication No. 0502.

## Satellite Seminars For Business Set



Daryl R. Conner, founder and CEO of ODR, Inc., a management consulting firm in Atlanta, will be the presenter in the first of

the fall business seminars produced by the U.S. Chamber's Quality Learning Services (QLS) Department.

The Sept. 16 seminar, to be broadcast by satellite to downlink sites nationwide, is titled "Building Nimble Organizations in Turbulent Times."

The schedule for the other seminars is:

**Sept. 30**—"Putting Power, Punch and Pizzaz Into Your Presentations," Robert W. Pike, president of Creative Training Techniques International, an education- and training-programs company in Edina, Minn.

**Oct. 14**—"The Phoenix: Creating Security in an Insecure World," James A. Belasco, professor of management, San Diego State University.

**Oct. 28**—"Connective Leader-

ship: Managing Diversity and Interdependence," Jean Lipman-Blumen, author of *The Connective Edge: Leading in an Interdependent World* and co-director and co-founder of the Institute for Advanced Studies in Leadership at the Peter F. Drucker Graduate Management Center in Claremont, Calif.

**Nov. 12**—"Executive Coaching: How to Recruit, Coach and Retain Fast-Track Employees," William J. Morin, founder of WJM Associates, a management consulting firm in New York City.

**Nov. 18**—"Making Things Happen, Getting Things Done: Leading Teams Effectively," Peter Scholtes, founder of Scholtes Seminars and Consulting, a management consulting firm in Madison, Wis.

**Dec. 9**—"Principle-Centered Leadership: The Next Phase," Sean Covey, a vice president with the Covey Leadership Center, a leadership and management training company in Provo, Utah.

The seminars will be presented jointly by QLS and the American Society for Training and Development in Alexandria, Va., a leader in the field of professional workplace training and development.

For more information, call QLS at 1-800-835-4730 or (202) 463-5940.

## Retirement Plans For Firms

The U.S. Chamber of Commerce and Fidelity Investments are offering a package of retirement plans and services that are designed to be accessible, affordable, and convenient for Chamber members.

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well as materials for employers to use in communicating with employees about the plans.

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